



IPE Group Limited

(Incorporated in the Cayman Islands with limited liability) (Stock Code: 929)

Annual Report 2013



CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Chui Siu On (*Chairman and Managing Director*)
Mr. Ho Yu Hoi
Mr. Li Chi Hang
Mr. Lau Siu Chung
Mr. Yuen Chi Ho
Ms. Chiu Tak Chun

Independent Non-executive Directors

Dr. Cheng Ngok
Mr. Choi Hon Ting, Derek
Mr. Wu Karl Kwok
Mr. Nguyen, Van Tu Peter

AUTHORISED REPRESENTATIVES

Mr. Chui Siu On
Mr. Tam Yiu Chung

COMPANY SECRETARY

Mr. Tam Yiu Chung

AUDIT COMMITTEE

Dr. Cheng Ngok (*Chairman*)
Mr. Choi Hon Ting, Derek
Mr. Wu Karl Kwok

REMUNERATION COMMITTEE

Dr. Cheng Ngok (*Chairman*)
Mr. Chui Siu On
Mr. Choi Hon Ting, Derek
Mr. Wu Karl Kwok

NOMINATION COMMITTEE

Mr. Chui Siu On (*Chairman*)
Dr. Cheng Ngok
Mr. Choi Hon Ting, Derek
Mr. Wu Karl Kwok
Mr. Nguyen, Van Tu Peter

LEGAL ADVISERS TO THE COMPANY

Michael Li & Co

AUDITORS

Ernst & Young
Certified Public Accountants

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

11th Floor, Block E1, Hoi Bun Industrial Building
No. 6 Wing Yip Street, Kwun Tong, Kowloon, Hong Kong

PRINCIPAL PLACE OF BUSINESS IN THE PRC

Shangwei Shahe Community, Yue Hu Cun
Zengcheng, Guangzhou
Guangdong Province, The PRC
Post code: 511335

PRINCIPAL PLACE OF BUSINESS IN THAILAND

99/1 Mu Phaholyothin Road, Sanubtueb
Wangnoi, Ayutthaya 13170, Thailand

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East, Hong Kong

PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited
Industrial and Commercial Bank of China (Asia) Limited
United Overseas Bank Limited

WEBSITE

<http://www.ipegroup.com>

STOCK CODE

929

LISTING VENUE

Main Board of The Stock Exchange
of Hong Kong Limited



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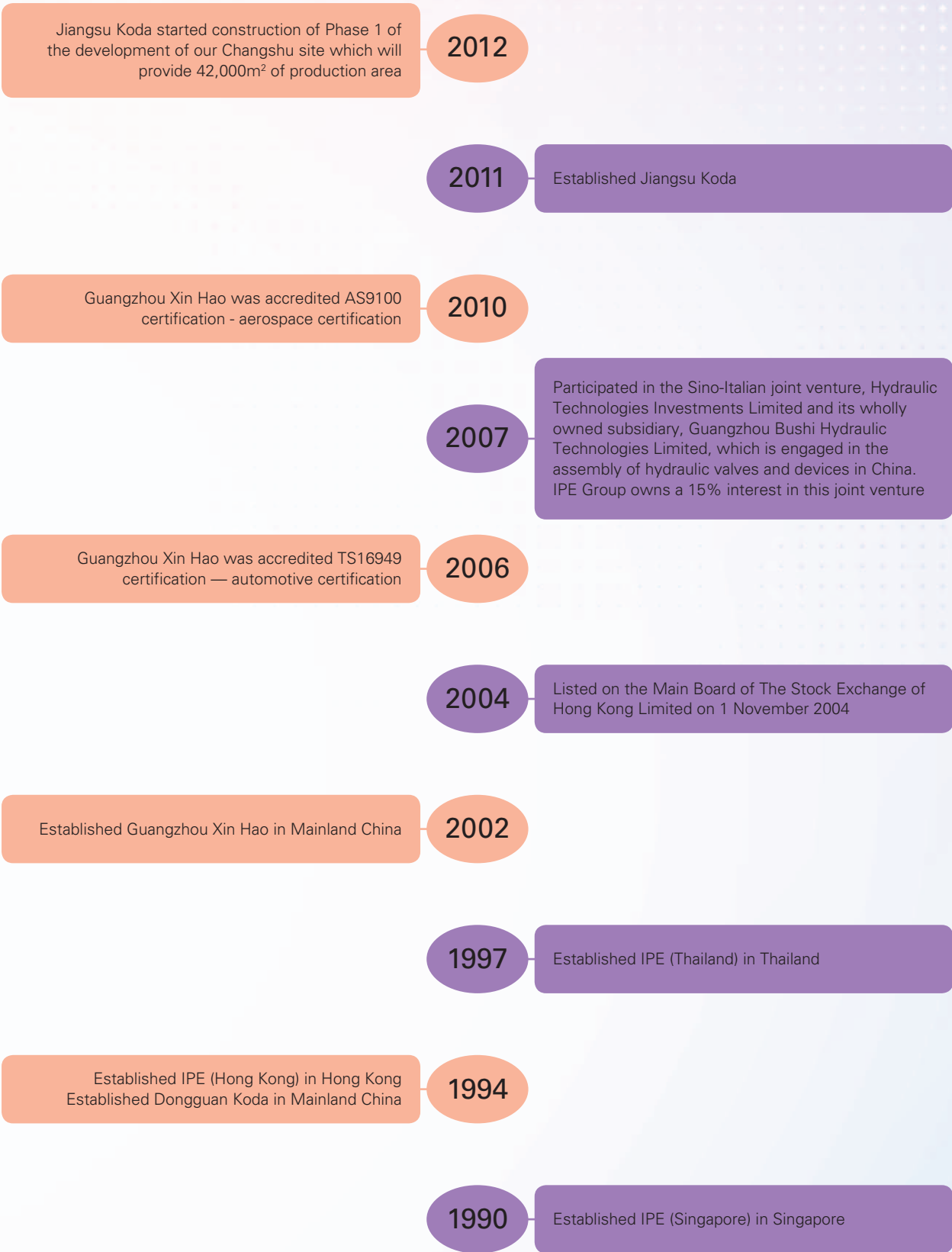
CORPORATE PROFILE

IPE Group Limited (the “Company” or “IPE Group”) was incorporated in the Cayman Islands as an exempted company with limited liability on 10 July 2002. The Company is an investment holding company and its subsidiaries (collectively referred to as the “Group”) are principally engaged in the manufacture and sale of high precision metal components.

The Group started its high precision components business in 1990 in Singapore and now produces high precision metal components and assembled parts used in hard disk drives (“HDD”), hydraulic equipment, automotive parts, electronic and other devices.

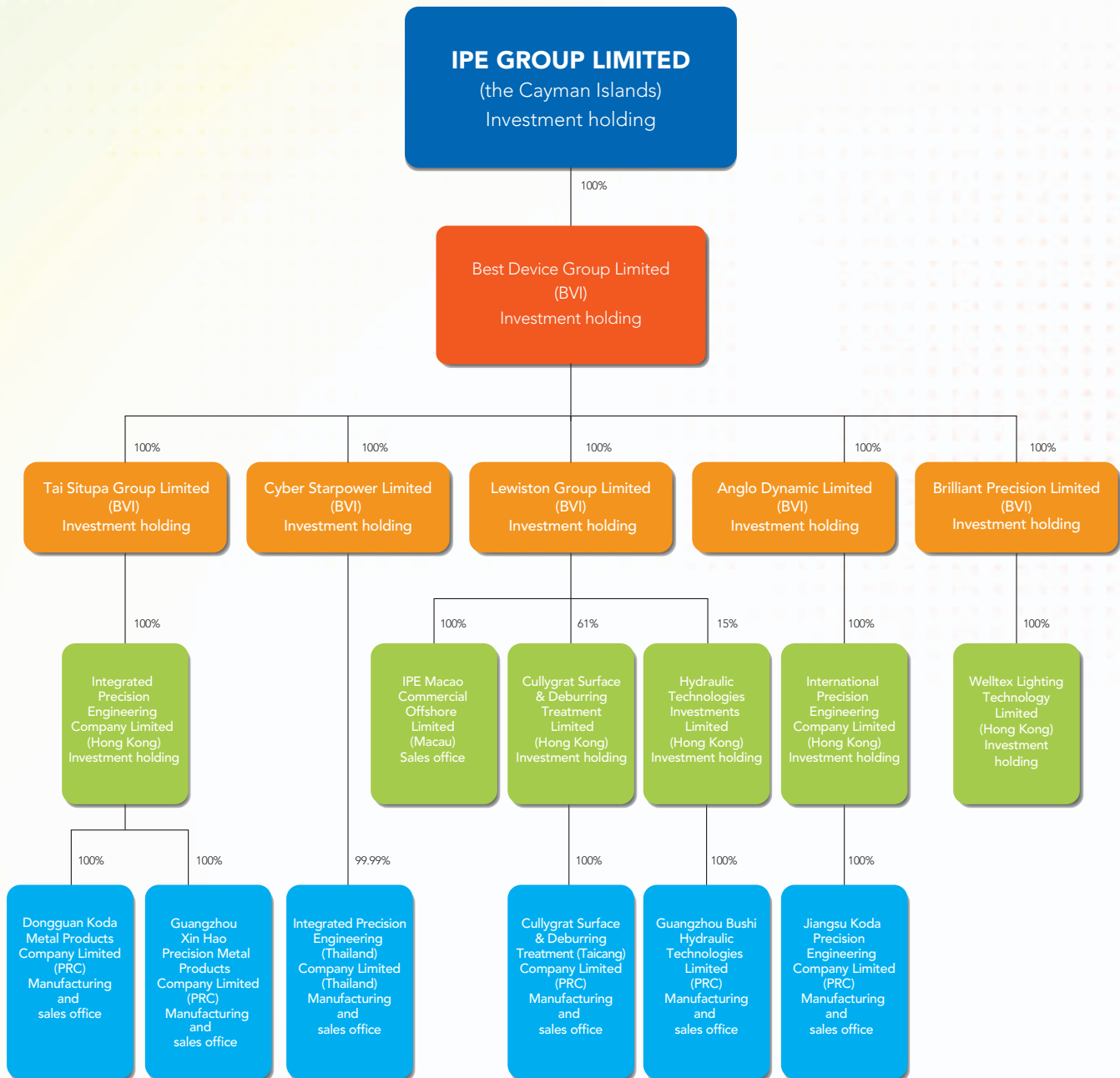
The Group’s highly valued customers are top-tier multinational corporations in the information technology, fluid power, automotive and electronic sectors where optimal precision is vital. Apart from supplying high volume precision components according to customer specifications, we are providing solutions to our global partners and working very closely with them in implementing new projects. Such projects typically take longer time to come to fruition as they involve development of many metal and plastic parts, and electronic circuits and the necessary know-how in final assembly and testing of the assembled device before shipment to the end customers can take place. The Group has developed a team of high caliber engineers which are able to provide solutions to our global partners.

CORPORATE MILESTONE



GROUP STRUCTURE

Principal subsidiaries and the joint venture of the Company as at 31 December 2013



FINANCIAL HIGHLIGHTS

RESULTS

	Year ended 31 December									
	2013		2012		2011		2010		2009	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
REVENUE	878,080	100%	974,652	100%	991,829	100%	1,054,243	100%	695,725	100%
Cost of sales	(713,540)	81%	(763,525)	78%	(793,184)	80%	(780,942)	74%	(587,363)	84%
Gross profit	164,540	19%	211,127	22%	198,645	20%	273,301	26%	108,362	16%
Other income and gains	15,409	2%	24,080	2%	11,695	1%	11,580	1%	21,379	3%
Selling and distribution expenses	(26,713)	3%	(26,875)	3%	(22,743)	2%	(25,676)	2%	(19,155)	3%
Administrative expenses	(108,948)	12%	(99,972)	10%	(93,689)	9%	(88,104)	9%	(70,112)	10%
Other expenses	(9,311)	1%	(4,215)	0%	(9,976)	1%	(9,433)	1%	(7,149)	1%
Finance costs	(20,215)	2%	(16,587)	2%	(16,849)	2%	(14,341)	1%	(15,985)	2%
PROFIT BEFORE TAX	14,762	2%	87,558	9%	67,083	7%	147,327	14%	17,340	3%
Income tax expense	(12,414)	1%	(17,124)	2%	(16,778)	2%	(14,489)	1%	(5,011)	1%
PROFIT FOR THE YEAR	2,348	0%	70,434	7%	50,305	5%	132,838	13%	12,329	2%
Attributable to:										
Owners of the Company	1,827	0%	70,522	7%	49,812	5%	132,355	13%	12,587	2%
Non-controlling interests	521	0%	(88)	0%	493	0%	483	0%	(258)	0%
	2,348	0%	70,434	7%	50,305	5%	132,838	13%	12,329	2%

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

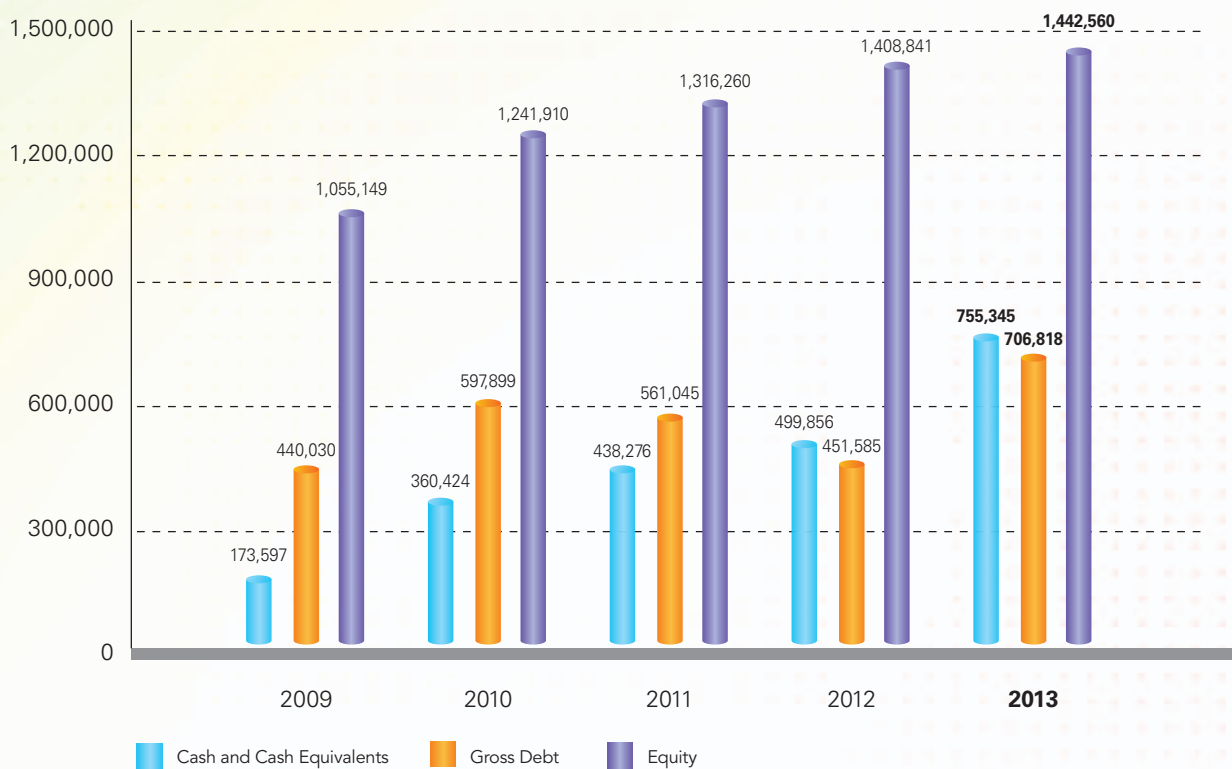
	As at 31 December				
	2013	2012	2011	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total non-current assets	964,004	1,001,941	1,106,607	1,189,693	1,082,305*
Total current assets	1,312,454	969,196	952,700	801,534	595,544*
Total current liabilities	545,302	538,226	725,861	653,629	472,138*
Net current assets	767,152	430,970	226,839	147,905	123,406*
Total non-current liabilities	288,596	24,070	17,186	95,688	150,562*
Total equity	1,442,560	1,408,841	1,316,260	1,241,910	1,055,149

* Restated

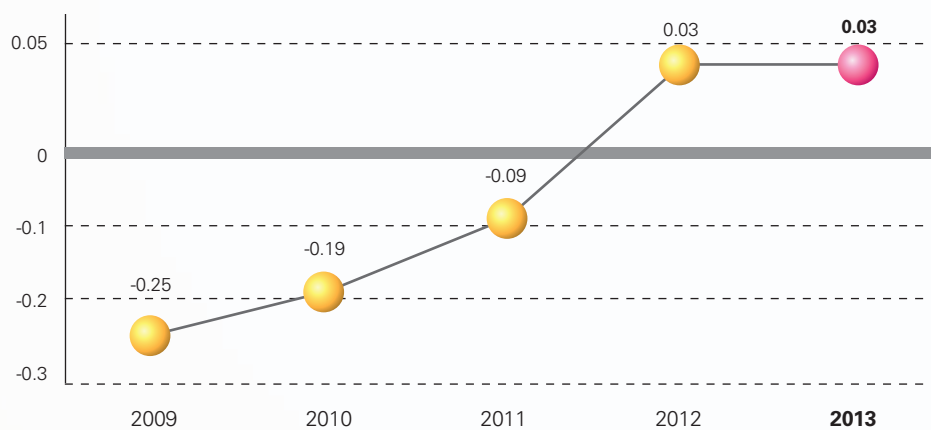
FINANCIAL HIGHLIGHTS

EQUITY, GROSS DEBT AND CASH AND CASH EQUIVALENTS

(HK\$'000)

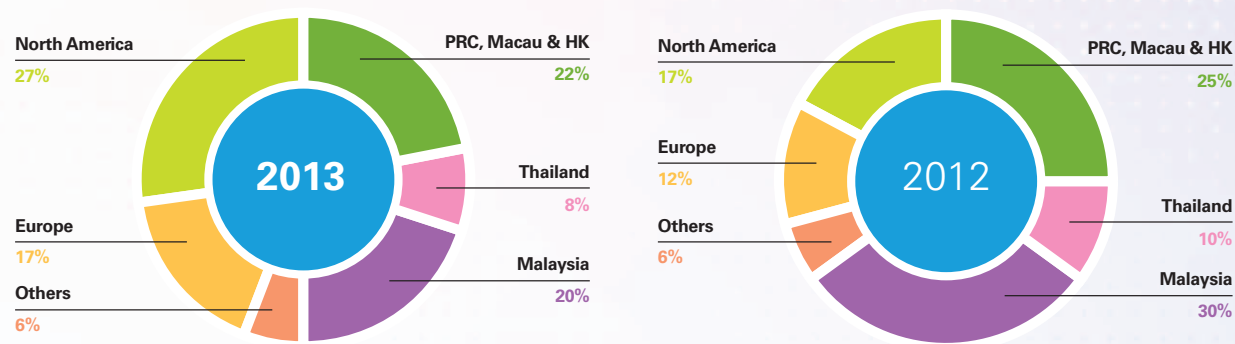


NET CASH/(DEBT) TO EQUITY RATIO



FINANCIAL HIGHLIGHTS

GEOGRAPHICAL COMBINATION



RATIO ANALYSIS

	Year ended 31 December				
	2013	2012	2011	2010	2009
KEY STATISTICS:					
Current ratio	2.41	1.80	1.31	1.23	1.26*
Net cash/(debt) to equity ratio	0.03	0.03	(0.09)	(0.19)	(0.25)
Dividend payout ratio	–	29.1%	29.7%	29.9%	–
Gross profit margin	18.7%	21.7%	20.0%	25.9%	15.6%
EBITDA margin	23.4%	27.7%	25.0%	30.2%	26.0%
Net profit margin	0.3%	7.2%	5.1%	12.6%	1.8%
Average days of debtor turnover	91 days	80 days	87 days	81 days	104 days
Average days of inventory turnover	119 days	122 days	102 days	86 days	137 days
PER SHARE DATA:					
Net assets value per share (HK\$)	1.58	1.51	1.42	1.34	1.15
Dividend per share	–	HK2.2 cents	HK1.6 cents	HK4.3 cents	–
Earnings per share — basic	HK0.20 cent	HK7.60 cents	HK5.35 cents	HK14.39 cents	HK1.66 cents
Earnings per share — diluted	HK0.20 cent	HK7.50 cents	HK5.11 cents	HK13.87 cents	HK1.64 cents

* Restated

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board"), I present to shareholders the annual results of IPE Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group" or "IPE Group") for the year ended 31 December 2013.

BUSINESS REVIEW

Our performance last year was disappointing. We barely managed to make a profit. However, it would have been even worse had our business development not progressed as much as it has done. Over the years, we have steadily diversified our business thereby reducing our heavy dependence on sales of hard disk drives ("HDD") components. This successful diversification stood us in good stead last year.

The HDD market is now a very concentrated oligopsony: only two HDD manufacturers account for approximately 85% of the market. Moreover, the market for HDD has been weak due to the contraction in the personal computer ("PC") market. PC shipments fell 10% in 2013 — the PC industry's worst performance ever. The situation in our HDD component business has been difficult too as one or more of our HDD component customers lost market share. This is the backdrop to the performance of our HDD component business in 2013. Sales of our HDD components in 2013 plummeted by more than 40% to only HK\$273.1 million.

On the positive side, our sales of automotive components increased by nearly 30.6% to HK\$274.8 million in 2013, a new record high. Last year's growth sustains the long trend of uninterrupted growth since we started manufacturing automotive components. Sales in our hydraulic equipment components business staged a recovery in 2013 rising to HK\$266.7 million which represents an increase of nearly 19.7% when compared to 2012.

Overall, total Group sales in 2013 amounted to HK\$878.1 million, representing a 9.9% decline as compared to 2012. The net profit attributable to owners of the Company for the year amounted to HK\$1.8 million, a sharp decrease of HK\$68.7 million from 2012.

The profit impact of the contraction in HDD component sales was magnified by rising costs and by the operating leverage due to depreciation and other fixed costs. While the growth in our automotive components sales and recovery in our hydraulic equipment components sales could not offset the impact of the plunge in sales of HDD components and consequently our profitability suffered, our financial position did not suffer; indeed it is stronger today than at the end of 2012.

PROSPECTS

The relentless onslaught from tablets, smartphones and solid state drives on the global hard disk drive market is likely to continue and we therefore remain very cautious about the outlook for our HDD components business. Indeed, the impetus for our drive to develop our hydraulics and automotive components businesses, which both have significant entry cost, came from a desire to reduce our reliance on HDD components sales. It is a little ironic that the sharp drop in HDD component sales combined with the strong growth in our other two main businesses meant that we have now achieved one of our longer term strategic goals to have each of our main businesses accounted for about 30% of total turnover.

Despite last year's poor results, we are gratified that both hydraulic equipment components and automotive components businesses are performing satisfactorily and we expect such performance to continue in 2014. We even foresee some recovery in the demand for HDD components on the assumption that our HDD components customers could regain some of their lost market share. However, it is unlikely that HDD component sales will recover to previous peaks given our policy of being very selective in the orders we accept.

CHAIRMAN'S STATEMENT

The drop in HDD components sales left us with significant underutilized capacity at a time when we are in the process of expanding capacity in Changshu to cater for the growth in our automotive component and hydraulic component businesses. Given the global macro uncertainties, we have been very cautious in our expansion plan and have sought to the extent possible to shift capacity from HDD components to our other businesses (the shift is neither straight forward nor easy and restructuring does come at a cost). We now expect Phase 1 of our Changshu factory to commence production in the third quarter of this year.

The Changshu factory is not planned simply to expand capacity. Because of our roots in HDD components, the precision components we produce have tended to be physically small in size. Apart from expanding capacity, our strategic plan involves us producing components of larger size, producing sub-assemblies and even end use components in our hydraulic equipment components and automotive component businesses, thus resulting in greater diversification in our business and further reducing the dependence on our HDD components business. We are excited about the prospects for growth in our automotive components and hydraulic equipment components businesses and expect that the start of operations in Changshu will mark a new phase in our Group's development.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express our gratitude to all staff for their devotion and hard work in the past year.

Chui Siu On

Chairman

24 March 2014

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

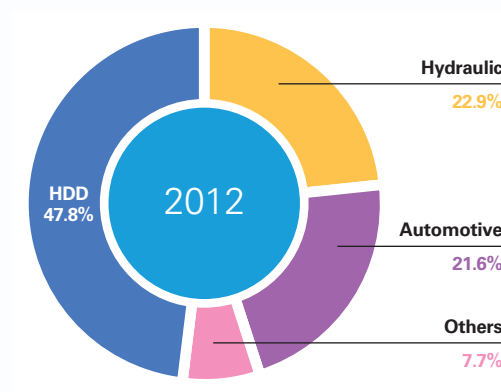
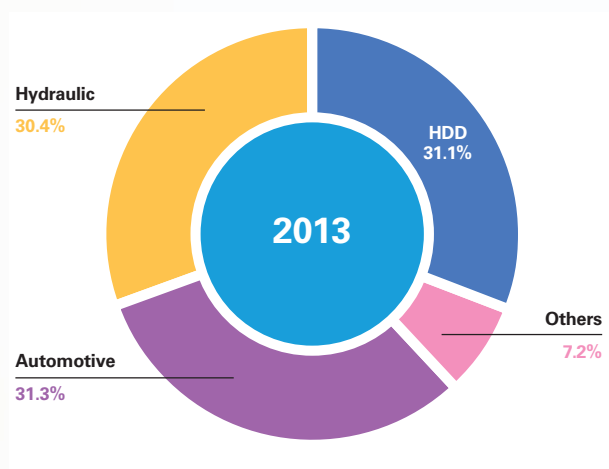
Sales

Sales of the Group decreased by 9.9% in 2013. The decrease was mainly due to the sharp decline in our Group's sales of HDD components of 41.4%.

The table below gives a breakdown of the Group's sales by business segments during the year under review, with comparative figures for 2012:

	2013		2012		% Change
	HK\$'000	%	HK\$'000	%	
HDD components	273,139	31.1	465,803	47.8	(41.4)
Hydraulic equipment components	266,663	30.4	222,797	22.9	19.7
Automotive components	274,849	31.3	210,438	21.6	30.6
Others	63,429	7.2	75,614	7.7	(16.1)
	878,080	100.0	974,652	100.0	(9.9)

BUSINESS COMBINATION



MANAGEMENT DISCUSSION AND ANALYSIS

Gross Profit

The gross profit margin of the Group was 18.7% in 2013, representing a decrease of 3.0 percentage points as compared to 2012.

The gross profit of the Group amounted to HK\$164.5 million in 2013, representing a decrease of HK\$46.6 million when compared with gross profit in 2012. The substantial increase in minimum wages in the PRC caused labour cost to rise which put pressure on gross profit margin. The sharp drop in sales of HDD components was another factor contributing to drop in gross profit because of the fixed depreciation charged on idle machines. The strength of the Renminbi was another factor adversely impacting gross profit.

Other Income and Gains

Other income and gains amounted to HK\$15.4 million for the year ended 31 December 2013, representing a decrease of HK\$8.7 million when compared with the year ended 31 December 2012. The difference was mainly due to the decrease of bank interest income, foreign exchange gains and fair value gains of interest rate swap and forward currency contracts in the amount of HK\$1.6 million, HK\$7.5 million and HK\$5.2 million, respectively.



MANAGEMENT DISCUSSION AND ANALYSIS

Selling and Distribution Expenses

Selling and distribution expenses amounted to HK\$26.7 million for the year ended 31 December 2013. This was slightly lower than in 2012 despite sharply rising transportation cost and higher staff salaries but, because of the decline in turnover, such costs, as a percentage of turnover, rose to 3.0% as compared with 2.8% of turnover in 2012.

Administrative Expenses

During the year, the Group's administrative expenses increased by 9.0% or HK\$9.0 million to HK\$108.9 million. The increase was mainly attributable to the HK\$11.5 million increase of equity-settled share option expenses.

Finance Costs

For the year ended 31 December 2013, overall finance costs increased to HK\$20.2 million, representing an increase of HK\$3.6 million when compared with the year ended 31 December 2012. The increase is mainly due to fees associated with the Group's HK\$550 million syndicated loan. As a result, the Group's average borrowing increased and the Group's average interest rate increased from 3.3% to 3.5%.

Profit Attributable to Owners of the Company

Profit attributable to owners of the Company was HK\$1.8 million for the year ended 31 December 2013, down from HK\$70.5 million for the year ended 31 December 2012.

DETAILS OF CHARGES ON THE GROUP'S ASSETS

As at 31 December 2013, the Group had total borrowings of HK\$706.8 million (31 December 2012: HK\$451.6 million) secured by corporate guarantee made by the Company. The Group had no charges on any of its assets for its banking facilities as at 31 December 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY, FINANCIAL RESOURCES AND FINANCIAL RATIOS

The Group generally finances its operations with internally generated cash flow as well as banking facilities provided by its bankers.

As at 31 December 2013, cash per share was HK\$0.83 (31 December 2012: HK\$0.54) and net asset value per share was HK\$1.58 (31 December 2012: HK\$1.51), based on the 910,823,943 ordinary shares in issue (31 December 2012: 931,087,790).

During the year under review, the Group recorded a net cash inflow from operating activities of HK\$211.5 million (2012: HK\$235.7 million). With the purchase of property, plant and equipment and investment deposits in financial products, the Group recorded a net cash outflow used in investing activities of HK\$207.4 million (2012: HK\$0.9 million).

Total bank borrowings as at 31 December 2013 increased to HK\$706.8 million (31 December 2012: HK\$451.6 million) due to the drawdown of part of the Group's HK\$550 million syndicated loan. The Group was in net cash position (cash and bank balances less total bank borrowings) as at 31 December 2013 and 31 December 2012.

CURRENCY EXPOSURE AND MANAGEMENT

The Group is exposed to fluctuations in foreign exchange rates. Since most of the Group's revenue is denominated in US dollars, whereas most of the Group's expenses, such as costs of major raw materials and machineries and production expenses, are denominated in Japanese Yen, Renminbi, Thai Baht and Hong Kong dollars, fluctuations in exchange rates can materially affect the Group; in particular, an appreciation in value of Renminbi and a depreciation in value of Thai Baht will adversely affect the Group's profitability. Accordingly, the Group has entered into forward exchange contracts to reduce potential exposure to currency fluctuations.

HUMAN RESOURCES

As at 31 December 2013, the Group had 2,956 employees, a decrease of 6.2% when compared to 3,151 employees as at 31 December 2012.

The Group has a share option scheme for selected participants as incentive and reward for their contribution to the Group. A mandatory provident fund scheme and local retirement benefit schemes are also in effect.

The Group encourages employees to receive continuing education and training to strengthen their work skills and for personal development. The Group also provides workshops for staff at different levels to enhance their knowledge of work safety and to build up team spirit. Staff are rewarded based on performance of the Group as well as on individual performance and contribution.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Chui Siu On, aged 54, is the Chairman, an executive and managing director, the chairman of both the executive committee and nomination committee and a member of the remuneration committee of the Company. He is also a director of certain subsidiaries of the Company. Besides, he is the director and shareholder of Tottenham Limited, a substantial shareholder of the Company. Mr. Chui is one of the founders of the Group. He is responsible for the overall strategic planning of the Group and establishes operational objectives and assignments. He has over 38 years of experience in the field of mechanical engineering and precision automation and has extensive experience in design and manufacture of automation equipment, precision mechanical components and machinery parts. He is the elder brother of Mr. Chui Siu Hung, the Deputy General Manager of the Group. Mr. Chui also holds positions in the following associations:

Association	Position
Guangdong Chamber of Foreign Investors (廣東外商公會)	Director
Guangdong Commercial Chamber of High-Technology Estate (廣東高科技產業商會)	Vice Chairman

Mr. Ho Yu Hoi, Mark, aged 50, is an executive director and a member of the executive committee of the Company and a director of certain subsidiaries of the Company. He joined the Group in 1992 and has over 31 years of experience in the field of computer aided design and manufacturing. Mr. Ho is currently responsible for overall marketing strategies and implementation of the strategic plans and goals of the Group. He also oversees the personnel and administration affairs of the Group.

Mr. Li Chi Hang, aged 43, is an executive director and a member of the executive committee of the Company and a director of certain subsidiaries of the Company. Mr. Li joined the Group in 1992 and is currently responsible for the Group's product development and new projects implementation. He has over 25 years of experience in the field of machine augmentation and manufacturing automation.

Mr. Lau Siu Chung, aged 49, is an executive director of the Company. He is also a member of the executive committee of the Company and the Sales and Marketing Director of the Group. Mr. Lau joined the Group in 1997 and is responsible for the planning and implementation of sales strategies and in charge of the sales and marketing activities of the Group. Mr. Lau has over 17 years of experience in marketing and sales of precision components and industrial equipments.

Mr. Yuen Chi Ho, aged 46, is an executive director of the Company. He is also a member of the executive committee and the Chief Financial Officer of the Company. Mr. Yuen joined the Group in 2009 and is responsible for the overall financial management of the Group. Mr. Yuen is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group, Mr. Yuen had worked for several listed companies in Hong Kong as an executive director or as a financial controller. He has over 23 years of experience in audit, accounting and financial management.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS (Continued)

Executive Directors (Continued)

Ms. Chiu Tak Chun, aged 48, is an executive director of the Company. She is also a member of the executive committee of the Company and the purchasing director of the Group. Ms. Chiu joined the Group in 1996 and is responsible for overall purchasing strategies and logistics management of the Group. She is a fellow member of the International Professional Managers Association, United Kingdom, and was granted a graduate diploma in management from them. Ms. Chiu has over 20 years of experience in manufacturing and operational management.

Independent Non-executive Directors

Dr. Cheng Ngok, aged 68, is an independent non-executive director, the chairman of both the audit committee and remuneration committee and a member of the nomination committee of the Company. He joined the Group in 2003. Dr. Cheng graduated from the National Taiwan University with a Bachelor of Science degree in Medical Technology in 1970 and then obtained a Doctor degree of Medicine, Surgery and Obstetrics, a Diploma certification in Orthopaedic Surgery and a PhD degree (Doctor of Biomedical Science) from Catholic University of Leuven, Belgium in 1978, 1983 and 1984 respectively. After graduation, he worked as an Orthopaedic Surgeon in Europe between 1978 and 1984. Then, he returned to Hong Kong and took up the position of a lecturer in the Department of Orthopaedics and Traumatology in The Chinese University of Hong Kong until 1986. Dr. Cheng had been a member of the Hospital Governing Committee of Alice Ho Miu Ling Nethersole Hospital from April 1997 until March 2009 and had been a member of the Cluster Tender Board in New Territories East Cluster, Hospital Authority from 2003 to 2010. Presently, he is a retired orthopaedic surgeon and holds directorship in two private companies engaging in medical diagnostic laboratory and manufacturing of medical devices.

Mr. Choi Hon Ting, Derek, aged 45, is an independent non-executive director and a member of the audit committee, remuneration committee and nomination committee of the Company. He joined the Group in 2004. Mr. Choi graduated from Purdue University in the US with a Bachelor degree in Engineering in Food Processing in 1991. Since his graduation, he has been working as project manager, deputy general manager and executive director of Balama Prima Engineering Company Limited, the businesses of which included highway construction, underground construction and environmental engineering. He was a director of C&C Technology Inc. (a company listed on the Toronto Stock Exchange). Mr. Choi was also a former chairman, vice-chairman and executive secretary of the China Hong Kong Society for Trenchless Technology. Mr. Choi is currently a chairman of The International Society for Trenchless Technology.

Mr. Wu Karl Kwok, aged 50, is an independent non-executive director and a member of the audit committee, remuneration committee and nomination committee of the Company. He joined the Group in 2004. Mr. Wu holds a Bachelor of Arts degree in business administration from the University of Washington and is a Certified Public Accountant (USA). He has over 26 years of international working experience in accounting, financial planning and control, business development, logistic, project management and contract administration in various industries. Mr. Wu is currently the managing director of an international pharmaceutical company. Prior to that, he was a senior consultant and vice president of an international trust company for six years. Mr. Wu's other past roles include financial controller and company secretary for UDL Holdings Limited, a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), and the chief financial officer and company secretary of Innovis Holdings Limited (currently known as Sino Haijing Holdings Limited), a company listed on the Stock Exchange.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS (Continued)

Independent Non-executive Directors (Continued)

Mr. Nguyen, Van Tu Peter, age 70, is an independent non-executive director of the Company and a member of the nomination committee of the Company. Mr. Nguyen joined the Group in 2011. He is a senior counsel and was called to the Bar in England by the Honourable Society of the Middle Temple in 1970. He was an assistant crown counsel and crown counsel in the Legal Department of Hong Kong during the period from August 1970 to November 1974 and after leaving Government service was in private practice as a Barrister in Hong Kong for approximately twenty years. Mr. Nguyen was appointed as Director of Public Prosecutions in the Legal Department of Hong Kong during the period from July 1994 to October 1997 and he was the first and only Chinese to hold such position. Mr. Nguyen was appointed as a Queen's Counsel in 1995 and was a Judge of the Court of First Instance of the High Court, Hong Kong from February 1998 to April 2009. Currently, Mr. Nguyen is an independent non-executive director of Combest Holdings Limited (a company listed on the Growth Enterprise Market of the Stock Exchange, stock code: 8190) and an independent non-executive director of Goldlion Holdings Limited (a company listed on the Main Board of the Stock Exchange, stock code: 533). He has also been appointed as an independent non-executive director of Integrated Waste Solutions Group Holdings Limited (a company listed on the Main Board of the Stock Exchange, stock code: 923) in June 2013.

SENIOR MANAGEMENT

Mr. Chui Siu Hung, aged 45, is the Deputy General Manager of the Group. He joined the Group in 1994 and is responsible for the supervision of production department in Guangzhou Xin Hao Precision Metal Products Company Limited and implementation of special hydraulic equipment components projects. He graduated from the Hong Kong Institute of Vocational Education with a certificate in Communication and Computer Studies and has over 21 years of experience in the manufacturing industry. He is the younger brother of Mr. Chui Siu On, the Chairman of the Group.

Mr. Jiang Fei, aged 41, is the Deputy General Manager of the Group and is responsible for the Group's heat treatment division. He joined the Group in 1995 after graduation from 華南理工大學 (South China University of Technology) with a graduate diploma in Mechanical Engineering. He has over 17 years of experience in the manufacturing industry.

Mr. Lei Ting Yong, aged 39, is the Deputy General Manager of the Group supervising the Group's research and product development department. He joined the Group in 1995 and is responsible for projects development and the development of information control devices for production efficiency.

COMPANY SECRETARY

Mr. Tam Yiu Chung, aged 43, is the Financial Controller and Company Secretary of the Company. He joined the Group in 2007. He holds a Master degree in professional accounting and is a member of the Hong Kong Institute of Certified Public Accountants.

CORPORATE GOVERNANCE REPORT

The board of directors of the Company (the "Board") presents this Corporate Governance Report in the Company's annual report for the year ended 31 December 2013.

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

The Group recognizes the vital importance of good corporate governance to the Group's success and sustainability and wishes to highlight the indispensable role of its Board in ensuring effective leadership and control of the Company and transparency and accountability of all its operations.

The Company has applied the principles as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Throughout the year under review, the Company has complied with the code provisions set out in the CG Code, save for the code provision A.2.1. Key corporate governance principles and practices of the Company as well as details of the said deviation are summarized below.

The Company is committed to reviewing and enhancing its corporate governance practices from time to time to ensure that its corporate governance practices continue to meet the regulatory requirements and the growing expectations of shareholders and investors.

THE BOARD

Responsibilities and Delegation

The overall management and control of the Company's business are vested in the Board, whose main roles are to provide leadership and to approve strategic policies and plans with a view to enhancing shareholder value. All directors take decisions objectively in the interests of the Company.

The Board reserves for its decision all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All directors have timely access to all relevant information as well as the advice and services of the Company Secretary and senior management, with a view to ensuring compliance with Board procedures and all applicable laws and regulations. Any director may request independent professional advice in appropriate circumstances at the Company's expense, upon reasonable request made to the Board. All directors carry out their duties in good faith and in compliance with the standards of applicable laws and regulations, and act in the interests of the Company and its shareholders at all times.

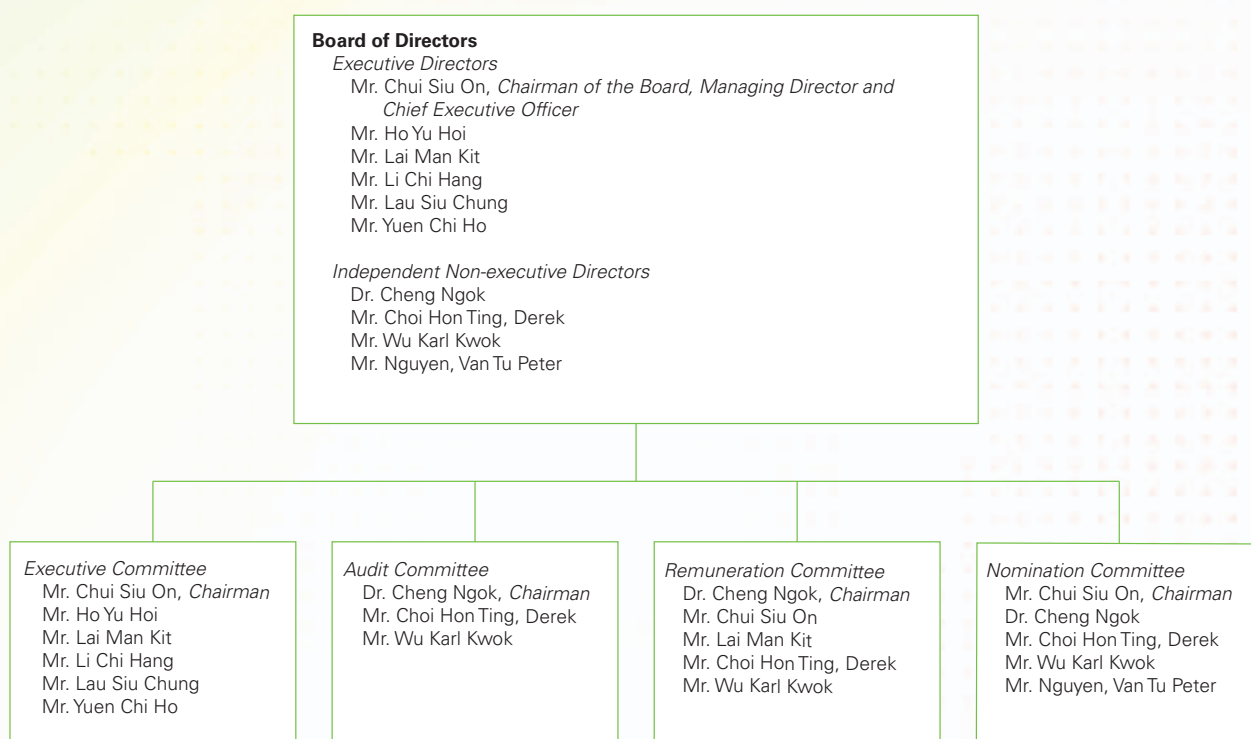
The Board has also delegated a schedule of responsibilities to the senior management of the Company. These responsibilities include the implementation of decisions of the Board, the co-ordination and direction of day-to-day operation and management of the Company in accordance with the management strategies and plans approved by the Board, formulating and monitoring the production and operating plans and budgets, and supervising and monitoring the control systems.

CORPORATE GOVERNANCE REPORT

THE BOARD (Continued)

Board Composition

The following chart illustrated the structure and membership of the Board and the Board Committees during the year ended 31 December 2013:



Note: Subsequent to the year end, (i) Ms. Chiu Tak Chun was appointed as an executive director and a member of the Executive Committee; and (ii) Mr. Lai Man Kit resigned as an executive director and a member of the Executive Committee and Remuneration Committee of the Company on 1 January 2014.

None of the members of the Board is related to one another. The biographical details of the directors are disclosed under the section headed "Directors and Senior Management" in this annual report.

The composition of the Board reflects the necessary balance of skills and experience appropriate to the requirements of the business of the Group and to the exercising of independent judgement. All directors bring a wide range of valuable business and financial expertise, experiences and professionalism to the Board for its effective functioning. Independent non-executive directors are invited to serve on the Board Committees of the Company.

During the year ended 31 December 2013, the Board at all times met the requirements of the Listing Rules of having at least three independent non-executive directors (representing at least one-third of the Board) with one independent non-executive director, being Mr. Wu Karl Kwok, possessing appropriate professional qualifications and accounting and related financial management expertise.

The Company has received written annual confirmation from each independent non-executive director in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive directors are independent.

CORPORATE GOVERNANCE REPORT

THE BOARD (Continued)

Chairman and Chief Executive Officer

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

Currently, Mr. Chui Siu On assumes the roles of both Chairman of the Board and Chief Executive Officer of the Company. As one of the founders of the Group, Mr. Chui has extensive experience in the design and manufacture of automation equipment, precision mechanical components and machinery parts. The Board believes that by holding both roles, Mr. Chui will be able to provide the Group with strong and consistent leadership and allows for more effective and efficient business planning and decisions as well as execution of long-term business strategies of the Group. The structure is therefore beneficial to the Group.

The Board believes that the current structure of vesting the roles of Chairman and Chief Executive Officer in the same person will not impair the balance of power and authority between the Board and the management of the Company.

Appointment and Re-election of Directors

Each of the independent non-executive directors is appointed for a term of about 1 year up to the date of holding the forthcoming annual general meeting of the Company (the "2014 AGM"). Each of the executive directors is appointed for a term of 3 years. Such terms of office are subject to early termination or renewal upon expiration.

In accordance with the Company's Articles of Association (the "Articles of Association"), all directors of the Company are subject to retirement by rotation at least once every three years and any new director appointed to fill a casual vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the next general meeting after appointment.

Pursuant to the above provisions in the Articles of Association, Mr. Chui Siu On, Mr. Ho Yu Hoi, Ms. Chiu Tak Chun and Mr. Choi Hon Ting, Derek shall retire and, being eligible, offer themselves for re-election at the 2014 AGM. The Board and the Nomination Committee of the Company recommended the re-appointment of these retiring directors standing for re-election at the 2014 AGM. The Company's circular, sent together with this annual report, contains detailed information of such directors pursuant to the requirements of the Listing Rules.

Training and Continuing Development of Directors

Each newly appointed director receives comprehensive induction on the first occasion of his/her appointment so as to ensure that he/she has appropriate understanding of the business and operations of the Group and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally-facilitated briefings for directors will be arranged and reading material on relevant topics will be issued to directors where appropriate. All directors are encouraged to attend relevant training courses at the Company's expenses.

CORPORATE GOVERNANCE REPORT

THE BOARD (Continued)

Training and Continuing Development of Directors (Continued)

During the year ended 31 December 2013, the Company (i) has organized briefings for all its directors, namely, Mr. Chui Siu On, Mr. Ho Yu Hoi, Mr. Lai Man Kit, Mr. Li Chi Hang, Mr. Lau Siu Chung, Mr. Yuen Chi Ho, Dr. Cheng Ngok, Mr. Choi Hon Ting, Derek, Mr. Wu Karl Kwok and Mr. Nguyen, Van Tu Peter, on update on the Listing Rules and Securities and Futures Ordinance amendments and (ii) has provided reading materials on regulatory update to all the directors for their reference and studying. Besides, Mr. Yuen Chi Ho and Mr. Wu Karl Kwok attended other seminars and training sessions arranged by other professional firms/institutions.

Model Code for Securities Transactions

The Company has adopted its own code of conduct governing directors' dealings in the Company's securities (the "Own Code") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Specific enquiry has been made to all directors and all of them have confirmed that they have complied with the Own Code and the Model Code throughout the year ended 31 December 2013.

The Company has also established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") for governing the securities transactions by employees who are likely to possess inside information of the Company or its securities. No incident of non-compliance of the Employees Written Guidelines by the relevant employees was noted by the Company.

In case when the Company is aware of any restricted period for dealings in the Company's securities, the Company will notify its directors and relevant employees in advance.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

Up to the date of this annual report, the Board has reviewed the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the Company's compliance of the Own Code and Employees Written Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

CORPORATE GOVERNANCE REPORT

THE BOARD (Continued)

Attendance Records of Directors and Committee Members

The attendance records of each director at the Board and Board Committee meetings and the general meeting of the Company held during the year ended 31 December 2013 is set out in the table below:

Name of Director	Attendance/Number of Meetings				Annual General Meeting
	Board	Audit Committee	Remuneration Committee	Nomination Committee	
Mr. Chui Siu On	8/8	–	1/1	1/1	1/1
Mr. Ho Yu Hoi	8/8	–	–	–	0/1
Mr. Lai Man Kit	5/8	–	1/1	–	0/1
Mr. Li Chi Hang	8/8	–	–	–	0/1
Mr. Lau Siu Chung	8/8	–	–	–	0/1
Mr. Yuen Chi Ho	8/8	–	–	–	1/1
Dr. Cheng Ngok	8/8	2/2	1/1	1/1	1/1
Mr. Choi Hon Ting, Derek	8/8	2/2	1/1	1/1	1/1
Mr. Wu Karl Kwok	8/8	2/2	1/1	1/1	1/1
Mr. Nguyen, Van Tu Peter	8/8	–	–	1/1	1/1

In addition, the Chairman of the Board also held meeting with the independent non-executive directors without the presence of executive directors during the year.

BOARD COMMITTEES

The Board has established 4 Board committees, namely, the Executive Committee, Remuneration Committee, Audit Committee and Nomination Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference which are posted on the Company's website "www.ipegroup.com" and on the Stock Exchange's website "www.hkexnews.hk" (except for the written terms of reference of the Executive Committee which is available to shareholders upon request). All the Board committees should report to the Board on their decisions or recommendations made.

Executive Committee

The Executive Committee currently comprises all the existing executive directors of the Company. The main duties of the Executive Committee include monitoring the execution of the Group's strategic plans and operations of all business units of the Group and discussing and making decisions on matters relating to the day-to-day management and operations of the Group.

Remuneration Committee

The Remuneration Committee currently comprises a total of 4 members, being 3 independent non-executive directors, namely, Dr. Cheng Ngok (Chairman), Mr. Choi Hon Ting, Derek and Mr. Wu Karl Kwok; and 1 executive director, namely, Mr. Chui Siu On. Accordingly, the majority of the members are independent non-executive directors.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES (Continued)

Remuneration Committee (Continued)

The main duties of the Remuneration Committee are to (i) make recommendations to the Board on the remuneration packages of directors and senior management and the remuneration policy and structure for all directors and senior management (i.e. the model described in the code provision B.1.2(c)(ii) of the CG Code was adopted) and (ii) establish transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his associates will participate in deciding his own remuneration.

During the year ended 31 December 2013, the Remuneration Committee has performed the following major tasks:

- Review and discussion of the remuneration policy of the Group and the remuneration packages of directors and senior staff of the Group;
- Review and recommendation of the grant of share options of the Company; and
- Recommendation of the remuneration packages of Ms. Chiu Tak Chun, the newly appointed director.

Pursuant to code provision B.1.5 of the CG Code, the annual remuneration of the members of the senior management by band for the year ended 31 December 2013 is set out below:

Remuneration	Number of individuals
Nil to HK\$1,000,000	3

Details of the remuneration of each of the directors of the Company for the year ended 31 December 2013 are set out in note 8 to the financial statements.

Audit Committee

The Audit Committee currently comprises a total of 3 members, namely, Dr. Cheng Ngok (Chairman), Mr. Choi Hon Ting, Derek and Mr. Wu Karl Kwok. All of the members are independent non-executive directors, with one independent non-executive director, being Mr. Wu Karl Kwok, possessing the appropriate professional qualifications and accounting and related financial management expertise. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee are to (i) review the financial statements and reports and consider any significant or unusual items raised by the financial officers of the Group or external auditors before submission to the Board; (ii) review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process; (iii) make recommendation to the Board on the appointment, re-appointment and removal of external auditors; and (iv) review the adequacy and effectiveness of the Company's financial reporting system, internal control system, risk management system and associated procedures and arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES (Continued)

Audit Committee (Continued)

During the year ended 31 December 2013, the Audit Committee has performed the following major tasks:

- Review and discussion of the annual financial results and report for the year ended 31 December 2012 and interim financial results and report for the six months ended 30 June 2013;
- Review of the scope of audit work, auditors' fees and terms of engagement for the year ended 31 December 2013;
- Discussion and recommendation of the re-appointment of the external auditors;
- Review of the internal control and risk management systems of the Group; and
- Review of the arrangements for employees to raise concerns about possible improprieties.

The external auditors were invited to attend the meetings to discuss with the Audit Committee on issues arising from the audit and financial reporting matters. Besides, there is no disagreement between the Board and the Audit Committee regarding the re-appointment of external auditors.

Nomination Committee

The Nomination Committee currently comprises a total of 5 members, being 1 executive director, namely, Mr. Chui Siu On (Chairman) and 4 independent non-executive directors, namely, Dr. Cheng Ngok, Mr. Choi Hon Ting, Derek, Mr. Wu Karl Kwok and Mr. Nguyen, Van Tu Peter. Accordingly, the majority of the members are independent non-executive directors.

The main duties of the Nomination Committee are to (i) review the Board composition, develop and formulate relevant procedures for the nomination and appointment of directors; (ii) make recommendations to the Board on the appointment and succession planning of directors; and (iii) assess the independence of independent non-executive directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects set out in the Board diversity policy, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorship, the Nomination Committee would consider the candidate's character, qualifications, experience, independence and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board. External recruitment professionals might be engaged to carry out selection process when necessary.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES (Continued)

Nomination Committee (Continued)

During the year ended 31 December 2013, the Nomination Committee has performed the following major tasks:

- Review of the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company;
- Recommendation of the re-appointment of those directors standing for re-election at the 2013 annual general meeting of the Company;
- Assessment of the independence of all the independent non-executive directors of the Company; and
- Recommendation of the appointment of Ms. Chiu Tak Chun as an executive director.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2013.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements. The senior management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the financial information and position of the Company, which are put to the Board for approval.

The directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

INTERNAL CONTROLS

The Board is responsible for maintaining an adequate internal control system to safeguard shareholders' investments and the Group's assets and, with the support of the Audit Committee, for reviewing the effectiveness of such system. The senior management reviews and evaluates the control process and monitors any risk factors on a regular basis and reports to the Audit Committee on any findings and measures to address the variances and identified risks.

During the year under review, the Board has conducted a review of the effectiveness of the internal control system of the Company.

CORPORATE GOVERNANCE REPORT

EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The statement of the external auditors of the Company about their reporting responsibilities for the Company's financial statements for the year ended 31 December 2013 is set out in the section headed "Independent Auditors' Report" in this annual report.

The fees paid/payable to the Group's external auditors in respect of audit services and non-audit services for the year ended 31 December 2013 are analyzed below:

Type of services provided by the external auditors	Fees paid/payable (HK\$'000)
Audit services: Audit fees for the year ended 31 December 2013	2,940
Non-audit services: Tax services and others	118
TOTAL:	3,058

COMPANY SECRETARY

During the year ended 31 December 2013, Mr. Tam Yiu Chung, the Company Secretary, has taken no less than 15 hours of relevant professional training. Biographical details of Mr. Tam are set out in the section headed "Directors and Senior Management" in this annual report.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Group also recognizes the importance of transparency and timely disclosure of corporate information which enables shareholders and investors to make the best investment decision.

To promote effective communication, the Company also maintains a website at "www.ipegroup.com" as a communication platform for shareholders and investors, where information and updates on the Group's business developments and operations, financial information, corporate governance practices and other information are available for public access. Shareholders and investors may send written enquiries or requests to the Company as follows:

Address: 11/F, Block E1, Hoi Bun Industrial Building, No. 6 Wing Yip Street,
Kwun Tong, Kowloon, Hong Kong
(For the attention of the Chairman of the Board)

Fax: (852) 2688 6155

Email: ipehk@ipehk.com.hk

The Company continues to enhance communications and relationships with its shareholders and investors. Designated senior management maintains regular dialogue with institutional investors and analysts to keep them posted of the Company's developments. Enquiries from shareholders and investors are dealt with in an informative and timely manner.

CORPORATE GOVERNANCE REPORT

In addition, the general meetings of the Company provide a good opportunity for communication between the Board and the shareholders. Board members and appropriate senior staff of the Group are available to answer questions at the annual general meeting and other shareholders' meetings.

SHAREHOLDERS' RIGHTS

To safeguard shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors, for shareholders' consideration and voting. Besides, the Company's shareholders may convene an extraordinary general meeting or put forward proposals at shareholders' meetings pursuant to the Articles of Association as follows:

- (i) Any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition.
- (ii) If a shareholder wishes to propose a person other than a retiring director for election as a director of the Company at a general meeting, the shareholder (other than the person to be proposed) duly qualified to attend and vote at the general meeting shall send a written notice, duly signed by the shareholder, of his/her intention to propose such person for election and also a notice signed by the person to be proposed of his/her willingness to be elected. These notices should be lodged at the Company's head office in Hong Kong or the Company's registration office (i.e. Tricor Investor Services Limited) at least 7 days prior to the date of the general meeting. If the notices are submitted after the dispatch of the notice of the general meeting appointed for such election, the period for lodgement of such notices shall commence on the day after the dispatch of the notice of such general meeting and end no later than 7 days prior to the date of such general meeting.

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement (as the case may be) to the Company's head office in Hong Kong and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

During the year under review, the Company has not made any changes to its Articles of Association. An up-to-date version of the Articles of Association is available on the websites of the Company and the Stock Exchange. Shareholders may refer to the Articles of Association for further details of the rights of shareholders.

All resolutions proposed at shareholder meetings will be voted by poll pursuant to the Listing Rules and the poll voting results will be posted on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.ipegroup.com) respectively immediately after the relevant general meetings.

REPORT OF THE DIRECTORS

The board of directors (the “Board”) of IPE Group Limited (the “Company”) is pleased to present this report together with the audited financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2013.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 17 to the financial statements. There were no significant changes in the nature of the Group’s principal activities during the year.

RESULTS AND DIVIDENDS

The Group’s profit for the year ended 31 December 2013 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 40 to 124.

The Board does not recommend the payment of any final dividend for the year ended 31 December 2013 (2012: HK1.2 cents per ordinary share). Details of dividends are set out in note 12 to the financial statements.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on pages 5 to 7 of the annual report. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company’s share capital and share options during the year are set out in notes 30 and 31 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company’s articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

REPORT OF THE DIRECTORS

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

The Company repurchased a total of 23,345,000 shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") during the year ended 31 December 2013. Details of the repurchases are summarized as follows:

Month of repurchases	Total number of shares repurchased	Repurchase price per share		Aggregate consideration HK\$'000
		Highest HK\$	Lowest HK\$	
August 2013	845,000	0.46	0.45	386
September 2013	7,160,000	0.52	0.48	3,615
October 2013	7,780,000	0.54	0.54	4,220
November 2013	6,365,000	0.54	0.52	3,394
December 2013	1,195,000	0.56	0.55	667
	<u>23,345,000</u>			<u>12,282</u>

The purchased shares were cancelled and the issued share capital of the Company was reduced by the par value therefore. The premium paid on the purchase of the shares of HK\$9,947,000 has been charged to the retained profits of the Company. An amount equivalent to the par value of the shares cancelled has been transferred from the retained profits of the Company to the capital redemption reserve.

The purchase of the Company's shares during the year was effected by the directors, pursuant to the mandate obtained from shareholders received at the last annual general meeting, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Group.

Except as disclosed above, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 32(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2013, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, amounted to HK\$674,777,000. The distributable reserves include the Company's share premium account and contributed surplus, amounting to HK\$359,172,000 at 31 December 2013, which may be distributed provided that immediately following the date on which such reserves are proposed to be distributed, the Company is in a position to pay off its debts as and when they fall due in the ordinary course of business.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$35,000 (2012: HK\$148,000).

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 38.9% of the total sales for the year and sales to the largest customer included therein amounted to 10.3%. Purchases from the Group's five largest suppliers accounted for 26.2% of the total purchases for the year and purchases from the largest supplier included therein amounted to 6.9%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued capital) had any beneficial interests in the Group's five largest customers and suppliers.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr. Chui Siu On
Mr. Ho Yu Hoi
Mr. Lai Man Kit
Mr. Li Chi Hang
Mr. Lau Siu Chung
Mr. Yuen Chi Ho

Independent non-executive directors:

Dr. Cheng Ngok
Mr. Choi Hon Ting, Derek
Mr. Wu Karl Kwok
Mr. Nguyen, Van Tu Peter

Subsequent to the end of the reporting period, on 1 January 2014, Mr. Lai Man Kit resigned as an executive director of the Company and Ms. Chiu Tak Chun was appointed as an executive director of the Company.

In accordance with Article 86(3) of the Company's articles of association, Ms. Chiu Tak Chun, will retire at the forthcoming annual general meeting of the Company (the "2014 AGM"). In addition, pursuant to Article 87 of the Company's articles of association, Mr. Chui Siu On, Mr. Ho Yu Hoi and Mr. Choi Hon Ting, Derek, the existing directors of the Company, will retire by rotation at the 2014 AGM. All the above retiring directors, being eligible, will offer themselves for re-election at the said meeting.

The Company has received annual confirmations of independence from Dr. Cheng Ngok, Mr. Choi Hon Ting, Derek, Mr. Wu Karl Kwok and Mr. Nguyen, Van Tu Peter, and as at the date of the report, still considers them to be independent.

REPORT OF THE DIRECTORS

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 14 to 16 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors, except for, Mr. Lau Siu Chung, Mr. Yuen Chi Ho and Ms. Chiu Tak Chun has entered into a service agreement with the Company for a term of three years until terminated by not less than six months' notice in writing served by either party to the other.

Apart from the foregoing, no director proposed for re-election at the 2014 AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Board with reference to directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its subsidiaries was a party during the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2013, the interests and short positions of the directors, in the share capital and underlying shares of the Company (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (Continued)

(A) Long positions in ordinary shares of the Company:

Name of director	Capacity and nature of interests	Notes	Number of ordinary shares in the Company	Percentage of the Company's issued share capital*
Mr. Chui Siu On	Through controlled corporation	1	226,784,475	24.90%
	Directly beneficially owned		7,576,250	0.83%
	Through spouse	2	125,000	0.01%
			234,485,725	25.74%
Mr. Ho Yu Hoi	Directly beneficially owned		31,838,740	3.50%
Mr. Lai Man Kit (resigned on 1 January 2014)	Directly beneficially owned		26,774,500	2.94%
Mr. Li Chi Hang	Directly beneficially owned		25,088,535	2.75%
Mr. Yuen Chi Ho	Directly beneficially owned		4,019,231	0.44%

* The percentage represents the number of ordinary shares divided by the number of the Company's issued shares as at 31 December 2013.

Notes:

- These shares were owned by Tottenham Limited ("Tottenham"), the entire issued capital of which was owned by Mr. Chui Siu On. By virtue of his 100% shareholding in Tottenham, Mr. Chui Siu On was deemed to be interested in the 226,784,475 shares of the Company owned by Tottenham pursuant to Part XV of the SFO.
- These shares held by Ms. Leung Wing Yi, the wife of Mr. Chui Siu On, were also disclosed as Ms. Leung's interests in the section headed "Substantial shareholders' and other persons' interests and short positions in shares and underlying shares" below. Mr. Chui Siu On was deemed to be interested in these 125,000 shares of the Company held by his wife pursuant to Part XV of the SFO.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (Continued)

(B) Long positions in the underlying shares of the Company – physically settled unlisted equity derivatives:

Name of director	Capacity and nature of interests	Number of underlying shares in respect of the share options granted	Percentage of underlying shares over the Company's issued capital*
Mr. Chui Siu On	Directly beneficially owned	57,000,000	6.26%
Mr. Lau Siu Chung	Directly beneficially owned	10,288,462	1.13%
Mr. Yuen Chi Ho	Directly beneficially owned	5,000,000	0.55%
Dr. Cheng Ngok	Directly beneficially owned	1,328,846	0.15%
Mr. Choi Hon Ting, Derek	Directly beneficially owned	1,128,846	0.12%
Mr. Wu Karl Kwok	Directly beneficially owned	1,128,846	0.12%
Mr. Nguyen, Van Tu Peter	Directly beneficially owned	1,600,000	0.18%

* The percentage represents the number of underlying shares divided by the number of the Company's issued shares as at 31 December 2013.

Note: Details of the above share options granted by the Company are set out in the section headed "Share option scheme" below and note 31 to the financial statements.

In addition to the above, as at 31 December 2013, certain directors of the Company held shares in certain subsidiaries of the Company in a non-beneficial capacity, solely for the purpose of complying with the previous requirements of a minimum of two shareholders.

Save as disclosed above, as at 31 December 2013, none of the directors or chief executive of the Company had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations which were required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Further details are disclosed in note 31 to the financial statements.

The following table discloses movements in the Company's share options outstanding during the year:

Name or category of participant	Number of share options				Date of grant of share options ⁽²⁾	Exercise period of share options	Exercise price of share options ⁽³⁾ HK\$ per share
	At 1 January 2013	Granted during the year ⁽¹⁾	Exercised during the year ⁽¹⁾	At 31 December 2013			
Directors							
Mr. Chui Siu On ⁽⁴⁾	18,000,000	-	-	18,000,000	19-06-11	01-09-11 to 31-08-18	1.8200
	18,000,000	-	-	18,000,000	19-06-11	01-09-12 to 31-08-18	1.8200
	14,000,000	-	-	14,000,000	19-06-11	01-09-13 to 31-08-18	1.8200
	-	7,000,000	-	7,000,000	15-01-13	01-04-14 to 31-12-17	0.7100
	50,000,000	7,000,000	-	57,000,000			
Mr. Lau Siu Chung	2,644,231	-	-	2,644,231	01-06-09	01-06-10 to 31-05-14	0.3545
	2,644,231	-	-	2,644,231	01-06-09	01-06-12 to 31-05-14	0.3545
	5,000,000	-	-	5,000,000	02-06-10	01-04-12 to 11-10-14	0.7200
	10,288,462	-	-	10,288,462			
Mr. Yuen Chi Ho	2,009,615	-	(2,009,615)	-	01-06-09	01-06-12 to 31-05-14	0.3545
	5,000,000	-	-	5,000,000	02-06-10	01-04-12 to 11-10-14	0.7200
	7,009,615	-	(2,009,615)	5,000,000			
Dr. Cheng Ngok	528,846	-	-	528,846	01-06-09	01-06-10 to 31-05-14	0.3545
	800,000	-	-	800,000	02-06-10	01-04-12 to 11-10-14	0.7200
	1,328,846	-	-	1,328,846			
Mr. Wu Karl Kwok	528,846	-	-	528,846	01-06-09	01-06-10 to 31-05-14	0.3545
	600,000	-	-	600,000	02-06-10	01-04-12 to 11-10-14	0.7200
	1,128,846	-	-	1,128,846			
Mr. Choi Hon Ting, Derek	528,846	-	-	528,846	01-06-09	01-06-10 to 31-05-14	0.3545
	600,000	-	-	600,000	02-06-10	01-04-12 to 11-10-14	0.7200
	1,128,846	-	-	1,128,846			
Mr. Nguyen, Van Tu Peter	600,000	-	-	600,000	28-04-11	28-04-11 to 11-10-14	1.5600
	1,000,000	-	-	1,000,000	23-04-12	01-05-12 to 31-08-16	0.6400
	1,600,000	-	-	1,600,000			
	72,484,615	7,000,000	(2,009,615)	77,475,000			

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (Continued)

Name or category of participant	Number of share options				Date of grant of share options ⁽²⁾	Exercise period of share options	Exercise price of share options ⁽³⁾ HK\$ per share
	At 1 January 2013	Granted during the year ⁽¹⁾	Exercised during the year ⁽¹⁾	At 31 December 2013			
Members of senior management and other employees of the Group							
In aggregate	5,822,883	-	(7,788)	5,815,095	01-06-09	01-06-10 to 31-05-14	0.3545
	1,109,328	-	(182,597)	926,731	01-06-09	01-06-11 to 31-05-14	0.3545
	3,965,095	-	(684,904)	3,280,191	01-06-09	01-06-12 to 31-05-14	0.3545
	1,565,386	-	(196,249)	1,369,137	01-06-09	01-06-13 to 31-05-14	0.3545
	23,400,000	-	-	23,400,000	02-06-10	01-04-12 to 11-10-14	0.7200
	8,400,000	-	-	8,400,000	02-06-10	01-04-13 to 11-10-14	0.7200
	11,200,000	-	-	11,200,000	02-06-10	01-04-14 to 11-10-14	0.7200
	20,000,000	-	-	20,000,000	23-04-12	01-09-14 to 31-08-16	0.6400
	-	83,000,000	-	83,000,000	15-01-13	01-04-14 to 31-12-17	0.7100
	75,462,692	83,000,000	(1,071,538)	157,391,154			
Suppliers of services							
In aggregate	6,875,769	-	-	6,875,769	01-06-09	01-06-10 to 31-05-14	0.3545
	5,000,000	-	-	5,000,000	02-06-10	01-04-12 to 11-10-14	0.7200
	11,875,769	-	-	11,875,769			
	159,823,076	90,000,000	(3,081,153)	246,741,923			

Notes to the table of share options outstanding during the year:

- (1) The weighted average closing price of the Company's shares immediately before the exercise dates of the share options was HK\$0.56 per share. The closing price of the Company's shares immediately before the date on which the options were granted during the year was HK\$0.69 per share.
- (2) The vesting period of the share options is from the date of grant until the commencement of the exercise period.
- (3) The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.
- (4) The grant of share options to Mr. Chui Siu On in June 2011, which exceed the individual limit, was approved by the independent shareholders at the Company's extraordinary general meeting pursuant to the Listing Rules.

During the year ended 31 December 2013, no share options have been cancelled/lapsed.

Save as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any of the directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2013, the following parties (not being directors or chief executive of the Company) with interests of more than 5% in the shares and underlying shares of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

(A) Long positions in the ordinary shares of the Company:

Name of substantial shareholder	Notes	Capacity and nature of interests	Number of ordinary shares in the Company	Percentage of the Company's issued share capital*
Tottenham	(a)	Directly beneficially owned	226,784,475	24.90%
Ms. Leung Wing Yi	(b)	Directly beneficially owned	125,000	0.01%
		Through spouse	234,360,725	25.73%
			234,485,725	25.74%
DJE Investment S.A.	(c)	Investment manager	72,250,000	7.93%
Mr. Jiang Qi Hang	(d)	Through controlled corporation	50,817,773	5.58%

* The percentage represents the number of ordinary shares divided by the number of the Company's issued shares as at 31 December 2013.

Notes:

- (a) The interests of Tottenham were also disclosed as the interests of Mr. Chui Siu On in the above section headed "Directors' and chief executive's interests and short positions in shares and underlying shares".
- (b) These shares were disclosed as the interests of Mr. Chui Siu On, the husband of Ms. Leung Wing Yi, in the section headed "Directors' and chief executive's interests and short positions in shares and underlying shares" above. Ms. Leung Wing Yi was deemed to be interested in these shares owned by her husband pursuant to Part XV of the SFO.
- (c) These shares were held by DJE Investment S.A. which was 100% controlled by Dr. Jens Ehrhardt Kapital AG which in turn was 68.5% controlled by Dr. Jens Alfred Karl Ehrhardt. Accordingly, Dr. Jens Ehrhardt Kapital AG and Dr. Jens Alfred Karl Ehrhardt were deemed to be interested in the 72,250,000 shares pursuant to Part XV of the SFO.
- (d) These shares as to 20,567,773 shares were held by China Angel Fund (which Mr. Jiang Qi Hang controlled 36% of its shareholdings); and as to 30,250,000 shares were held by China Angel Investment Management Limited (which Mr. Jiang Qi Hang controlled 100% of its shareholdings). Accordingly, Mr. Jiang Qi Hang was deemed to be interested in the total of 50,817,773 shares pursuant to Part XV of the SFO.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (Continued)

(B) Long positions in the underlying shares of the Company — physically settled unlisted equity derivatives:

Name of substantial shareholder	Capacity and nature of interests	Number of underlying shares in respect of the share options granted	Percentage of underlying shares over the Company's issued share capital*
Ms. Leung Wing Yi	Through spouse	57,000,000	6.26%

* The percentage represents the number of underlying shares divided by the number of the Company's issued shares as at 31 December 2013.

Note: These underlying shares were disclosed as the interests of Mr. Chui Siu On, the husband of Ms. Leung Wing Yi, in the section headed "Directors' and chief executive's interests and short positions in shares and underlying shares" above. Ms. Leung Wing Yi was deemed to be interested in these underlying shares held by her husband pursuant to Part XV of the SFO.

Details of the above share options granted by the Company are set out in the section headed "Share option scheme" above and note 31 to the financial statements.

Save as disclosed above, as at 31 December 2013, no person, other than the directors of the Company, whose interests are set out in the section headed "Directors' and chief executive's interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued capital was held by the public as at the date of this report.

REPORT OF THE DIRECTORS

CORPORATE GOVERNANCE

Details of the corporate governance of the Group are set out in the section headed "Corporate Governance Report" in this annual report.

AUDITORS

Ernst & Young retire and a resolution for their re-appointment as auditors of the Company will be proposed at the 2014 AGM.

GENERAL DISCLOSURE PURSUANT TO RULE 13.18 OF THE LISTING RULES

As detailed in the Company's announcement dated 27 May 2013, pursuant to the term and revolving loan facility agreement (the "Facility Agreement"), a term loan facility of HK\$330,000,000 (the "Facility A Loan") and a revolving loan facility of HK\$220,000,000 (the "Facility B Loan", together with the Facility A Loan, the "Loan Facility") are made available to the Group for the general working capital of the Group and corporate funding purposes. The Facility A Loan is repayable in seven equal quarterly instalments commencing eighteen months from the date of the Facility Agreement. Each Facility B Loan is repayable on the last day of its interest payment date, being one, two or three months as may be selected by the Group provided that it shall be repaid in full on the third anniversary of the date of the Facility Agreement (or, subject to agreement between the parties thereto, a further period of up to one year).

As common with other syndicated loan facilities, the Facility Agreement imposes a specific performance obligation on Mr. Chui Siu On who is the Chairman of the Board, an executive director and a substantial shareholder of the Company. It will be an event of default under the Facility Agreement if: (a) Mr. Chui Siu On holds, directly or indirectly, less than 20% of all the issued share capital of, and voting rights in, the Company; (b) Mr. Chui Siu On ceases to be the largest and substantial shareholder of the Company (within the meaning of the Listing Rules); or (c) Mr. Chui Siu On is not actively involved in, or maintain control in the management and business of the Company, in which event all or any part of the commitments under the Loan Facility may be cancelled and all amounts outstanding under the Loan Facility may immediately become due and payable.

ON BEHALF OF THE BOARD

Chui Siu On

Chairman and Managing Director

Hong Kong
24 March 2014

INDEPENDENT AUDITORS' REPORT



To the shareholders of IPE Group Limited

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of IPE Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 40 to 124, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITORS' REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

24 March 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2013

	Notes	2013 HK\$'000	2012 HK\$'000
REVENUE	5	878,080	974,652
Cost of sales		(713,540)	(763,525)
Gross profit		164,540	211,127
Other income and gains	5	15,409	24,080
Selling and distribution expenses		(26,713)	(26,875)
Administrative expenses		(108,948)	(99,972)
Other expenses		(9,311)	(4,215)
Finance costs	7	(20,215)	(16,587)
PROFIT BEFORE TAX	6	14,762	87,558
Income tax expense	10	(12,414)	(17,124)
PROFIT FOR THE YEAR		2,348	70,434
Attributable to:			
Owners of the Company	11	1,827	70,522
Non-controlling interests		521	(88)
		2,348	70,434
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	13		
Basic		HK0.20 cent	HK7.60 cents
Diluted		HK0.20 cent	HK7.50 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2013

	Note	2013 HK\$'000	2012 HK\$'000
PROFIT FOR THE YEAR		2,348	70,434
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		34,907	28,915
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		34,907	28,915
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		37,255	99,349
Attributable to:			
Owners of the Company	11	36,672	99,405
Non-controlling interests		583	(56)
		37,255	99,349

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2013

	Notes	2013 HK\$'000	2012 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	854,702	893,899
Prepaid land lease payments	15	98,114	97,661
Loan to an unlisted equity investment	18	3,540	5,443
Available-for-sale investment	19	150	150
Deposits for purchase of non-current assets		7,053	4,256
Deferred tax assets	29	445	532
Total non-current assets		964,004	1,001,941
CURRENT ASSETS			
Inventories	20	208,504	255,901
Trade receivables	21	242,615	195,534
Prepayments, deposits and other receivables	22	105,990	17,290
Derivative financial instruments	26	–	615
Cash and cash equivalents	23	755,345	499,856
Total current assets		1,312,454	969,196
CURRENT LIABILITIES			
Trade and bills payables	24	69,617	55,420
Other payables and accruals	25	35,466	30,334
Tax payable		13,284	17,828
Interest-bearing bank and other borrowings	27	426,935	434,644
Total current liabilities		545,302	538,226
NET CURRENT ASSETS		767,152	430,970
TOTAL ASSETS LESS CURRENT LIABILITIES		1,731,156	1,432,911
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	27	279,883	16,941
Deferred tax liabilities	29	6,651	5,453
Other payables and accruals	25	2,062	1,676
Total non-current liabilities		288,596	24,070
Net assets		1,442,560	1,408,841

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

31 December 2013

	Notes	2013 HK\$'000	2012 HK\$'000
EQUITY			
Equity attributable to owners of the Company			
Issued capital	30	91,082	93,109
Reserves	32(a)	1,349,026	1,302,686
Proposed final dividend	12	–	11,177
		1,440,108	1,406,972
Non-controlling interests		2,452	1,869
Total equity		1,442,560	1,408,841

CHUI SIU ON
Director

LI CHI HANG
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2013

Notes	Attributable to owners of the Company												Total equity HK\$'000
	Issued share capital HK\$'000 (note 30)	Share premium account HK\$'000 (note 30)	Contributed surplus HK\$'000 (note 32(a))	Statutory					Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Proposed final dividend HK\$'000 (note 12)	Non- controlling interests HK\$'000	
				Statutory surplus reserve HK\$'000 (note 32(a))	public welfare fund HK\$'000 (note 32(a))	Capital redemption reserve HK\$'000	Share option reserve HK\$'000	Total					
At 1 January 2013	93,109	394,709*	(1,116)*	20,153*	287*	3,422*	25,794*	248,040*	611,397*	11,177	1,406,972	1,869	1,408,841
Profit for the year	-	-	-	-	-	-	-	-	1,827	-	1,827	521	2,348
Other comprehensive income for the year: Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	34,845	-	-	34,845	62	34,907
Total comprehensive income for the year	-	-	-	-	-	-	-	34,845	1,827	-	36,672	583	37,255
Issue of shares 30	308	1,367	-	-	-	-	(584)	-	-	-	1,091	-	1,091
Share issue expenses 30	-	(3)	-	-	-	-	-	-	-	-	(3)	-	(3)
Repurchase of shares 30	(2,335)	(9,947)	-	-	-	2,335	-	-	(2,335)	-	(12,282)	-	(12,282)
Equity-settled share option arrangements	-	-	-	-	-	-	18,835	-	-	-	18,835	-	18,835
Transfer from retained profits	-	-	-	2,882	-	-	-	-	(2,882)	-	-	-	-
Final 2012 dividend declared 12	-	-	-	-	-	-	-	-	-	(11,177)	(11,177)	-	(11,177)
At 31 December 2013	91,082	386,126*	(1,116)*	23,035*	287*	5,757*	44,045*	282,885*	608,007*	-	1,440,108	2,452	1,442,560

* These reserve accounts comprise the consolidated reserves of HK\$1,349,026,000 (2012: HK\$1,302,686,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Year ended 31 December 2013

Notes	Attributable to owners of the Company													Total equity HK\$'000
	Issued share capital HK\$'000 (note 30)	Share premium account HK\$'000 (note 30)	Contributed surplus HK\$'000 (note 32(a))	Statutory surplus reserve HK\$'000 (note 32(a))	Statutory					Warrant reserve HK\$'000	Retained profits HK\$'000	Proposed final dividend HK\$'000 (note 12)	Non-controlling interests HK\$'000	
					public welfare fund HK\$'000 (note 32(a))	Capital redemption reserve HK\$'000	Share option reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Total					
At 1 January 2012	92,664	392,938*	(1,116)*	17,222*	287*	3,108*	23,006*	219,157*	1,200*	560,309*	5,560	1,314,335	1,925	1,316,260
Profit for the year	-	-	-	-	-	-	-	-	-	70,522	-	70,522	(88)	70,434
Other comprehensive income for the year:														
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	28,883	-	-	-	28,883	32	28,915
Total comprehensive income for the year	-	-	-	-	-	-	-	28,883	-	70,522	-	99,405	(56)	99,349
Issue of shares	30	759	3,359	-	-	-	(1,427)	-	-	-	-	2,691	-	2,691
Share issue expenses	30	-	(20)	-	-	-	-	-	-	-	-	(20)	-	(20)
Repurchase of shares	30	(314)	(1,568)	-	-	314	-	-	-	(314)	-	(1,882)	-	(1,882)
Equity-settled share option arrangements	-	-	-	-	-	-	7,297	-	-	-	-	7,297	-	7,297
Transfer of share option reserve upon the forfeiture or expiry of share options	-	-	-	-	-	-	(3,082)	-	-	3,082	-	-	-	-
Transfer from retained profits	-	-	-	2,931	-	-	-	-	-	(2,931)	-	-	-	-
Transfer of warrant reserve upon the expiry of warrants	-	-	-	-	-	-	-	-	(1,200)	1,200	-	-	-	-
Interim 2012 dividend	12	-	-	-	-	-	-	-	-	(9,294)	-	(9,294)	-	(9,294)
Final 2011 dividend declared	12	-	-	-	-	-	-	-	-	-	(5,560)	(5,560)	-	(5,560)
Proposed final 2012 dividend	12	-	-	-	-	-	-	-	-	(11,177)	11,177	-	-	-
At 31 December 2012	93,109	394,709*	(1,116)*	20,153*	287*	3,422*	25,794*	248,040*	-*	611,397*	11,177	1,406,972	1,869	1,408,841

* These reserve accounts comprise the consolidated reserves of HK\$1,302,686,000 (2011: HK\$1,216,111,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2013

	Notes	2013 HK\$'000	2012 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		14,762	87,558
Adjustments for:			
Depreciation	6, 14	167,983	163,723
Recognition of prepaid land lease payments	6, 15	2,297	2,238
(Reversal of provision)/provision against inventory obsolescence	6	(2,668)	482
(Gain)/loss on disposal of items of property, plant and equipment	5, 6	(198)	868
Fair value losses/(gains), net:			
Derivative financial instruments			
— transactions not qualified as hedges	6	615	(4,634)
Equity-settled share option expense		18,835	7,297
Finance costs	7	20,215	16,587
Interest income	5	(11,720)	(13,356)
		210,121	260,763
Decrease/(increase) in inventories		50,065	(350)
(Increase)/decrease in trade receivables		(47,062)	36,427
Decrease in prepayments, deposits and other receivables		2,580	11,057
Increase/(decrease) in trade and bills payables		13,626	(41,906)
Increase/(decrease) in other payables and accruals		4,841	(8,672)
Cash generated from operations		234,171	257,319
Interest received		9,821	13,356
Interest paid		(15,825)	(14,568)
Interest element of finance lease rental payments		(1,020)	(1,608)
Income taxes paid		(15,681)	(18,795)
Net cash flows from operating activities		211,466	235,704
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(111,947)	(61,665)
Proceeds from disposal of items of property, plant and equipment		1,897	1,893
Prepayment for a land lease		(5,124)	—
(Increase)/decrease in non-pledged time deposits with original maturity of over three months and within one year when acquired		(6,454)	59,360
Investment deposits in financial products		(87,715)	—
Receipt of repayment of loan to/(loan to) an unlisted equity investment		1,903	(443)
Net cash flows used in investing activities		(207,440)	(855)

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2013

	Notes	2013 HK\$'000	2012 HK\$'000
Net cash flows used in investing activities		(207,440)	(855)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repurchase of shares	30(b) & (d)	(12,282)	(1,882)
Share issue expenses	30	(3)	(20)
Share options exercised		1,091	2,691
New bank loans and other borrowings		1,116,257	698,236
Repayment of bank loans and other borrowings		(849,212)	(782,247)
Capital element of finance lease rental payments		(15,182)	(25,581)
Dividends paid	12	(11,177)	(14,854)
Net cash flows generated from/(used in) financing activities		229,492	(123,657)
NET INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		354,824	233,884
Effect of foreign exchange rate changes, net		15,517	9,748
CASH AND CASH EQUIVALENTS AT END OF YEAR			
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	23	393,488	297,838
Non-pledged time deposits with original maturity of less than three months when acquired	23	210,371	56,986
Non-pledged time deposits with original maturity of over three months and within one year when acquired	23	151,486	145,032
Cash and cash equivalents as stated in the consolidated statement of financial position	23	755,345	499,856
Non-pledged time deposits with original maturity of over three months and within one year when acquired	23	(151,486)	(145,032)
Cash and cash equivalents as stated in the consolidated statement of cash flows		603,859	354,824

STATEMENT OF FINANCIAL POSITION

31 December 2013

	Notes	2013 HK\$'000	2012 HK\$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	17	43	43
CURRENT ASSETS			
Prepayments, deposits and other receivables	22	275	246
Amounts due from subsidiaries	17	808,434	784,845
Cash and cash equivalents	23	6,960	6,474
Total current assets		815,669	791,565
CURRENT LIABILITIES			
Other payables and accruals	25	51	44
NET CURRENT ASSETS			
		815,618	791,521
NET ASSETS			
Net assets		815,661	791,564
EQUITY			
Issued capital	30	91,082	93,109
Reserves	32(b)	724,579	687,278
Proposed final dividend	12	–	11,177
Total equity		815,661	791,564

CHUI SIU ON

Director

LI CHI HANG

Director

NOTES TO FINANCIAL STATEMENTS

31 December 2013

1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 10 July 2002 under the Companies Law of the Cayman Islands. Its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 1 November 2004.

The principal place of business is located at 11th Floor, Block E1, Hoi Bun Industrial Building, No. 6 Wing Yip Street, Kwun Tong, Kowloon, Hong Kong.

The principal activities of the Group during the year were the manufacture and sale of precision metal components for hard disk drives ("HDD"), hydraulic equipment, automotive parts and components for other applications.

In the opinion of the directors, the holding company and the ultimate holding company of the Group before the open offer of new shares of the Company in the year 2009 was Tottenham Limited, which was incorporated in the British Virgin Islands. Subsequent to the open offer, the Group ceased to have holding companies.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK\$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2013. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.1 BASIS OF PREPARATION (Continued)

Basis of consolidation (Continued)

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards — Government Loans</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities</i>
HKFRS 10	<i>Consolidated Financial Statements</i>
HKFRS 11	<i>Joint Arrangements</i>
HKFRS 12	<i>Disclosure of Interests in Other Entities</i>
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 — <i>Transition Guidance</i>
HKFRS 13	<i>Fair Value Measurement</i>
HKAS 1 Amendments	Amendments to HKAS 1 <i>Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income</i>
HKAS 19 (2011)	<i>Employee Benefits</i>
HKAS 27 (2011)	<i>Separate Financial Statements</i>
HKAS 28 (2011)	<i>Investments in Associates and Joint Ventures</i>
HK(IFRIC)-Int 20	<i>Stripping Costs in the Production Phase of a Surface Mine</i>
<i>Annual Improvements 2009-2011 Cycle</i>	Amendments to a number of HKFRSs issued in June 2012

The adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 9	<i>Financial Instruments</i> ³
HKFRS 9, HKFRS 7 and HKAS 39 Amendments	<i>Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39</i> ³
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) — <i>Investment Entities</i> ¹
HKAS 19 Amendments	Amendments to HKAS 19 <i>Employee Benefits</i> — <i>Defined Benefit Plans: Employee Contributions</i> ²
HKAS 32 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation</i> — <i>Offsetting Financial Assets and Financial Liabilities</i> ¹
HKAS 36 Amendments	Amendments to HKAS 36 <i>Impairment of Assets</i> — <i>Recoverable Amount Disclosures for Non-Financial Assets</i> ¹
HKAS 39 Amendments	Amendments to HKAS 39 <i>Financial Instruments: Recognition and Measurement</i> — <i>Novation of Derivatives and Continuation of Hedge Accounting</i> ¹
HK(IFRIC)-Int 21	<i>Levies</i> ¹
HKFRS 14	<i>Regulatory Deferral Accounts</i> ⁴
Annual Improvements Project	<i>Annual Improvements to HKFRSs 2010–2012 Cycle</i> ² <i>Annual Improvements to HKFRSs 2011–2013 Cycle</i> ²

¹ Effective for annual periods beginning on or after 1 January 2014

² Effective for annual periods beginning on or after 1 July 2014

³ No mandatory effective date yet determined but is available for adoption

⁴ Effective for annual periods beginning on or after 1 January 2016

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Investments in joint ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the disposed operation and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its derivative financial instruments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement (Continued)

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a); and
 - (vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment over its estimated useful life. The principal annual rates used for this purpose are as follows:

Freehold land	Not depreciated
Leasehold land under finance leases	Over the lease terms
Buildings	Over the shorter of the lease terms and 50 years
Leasehold improvements	Over the shorter of the lease terms and 5 to 10 years
Plant and machinery	10 years
Furniture and fixtures	5 years
Motor vehicles	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents the cost of construction and other direct costs attributable to the construction of property, plant and equipment or investment property. It is stated at cost less any impairment losses, and is not depreciated. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment property when completed and put into use.

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

(1) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Subsequent measurement (Continued)

(1) *Financial assets at fair value through profit or loss (Continued)*

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

(2) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

(3) *Available-for-sale financial investments*

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Subsequent measurement (Continued)

(3) Available-for-sale financial investments (Continued)

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the statement of profit or loss.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, financial liabilities included in other payables and accruals and interest-bearing bank and other borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities at fair value through profit or loss (Continued)

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts and an interest rate swap, to hedge its foreign currency risk and interest rate risk, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative financial instruments and hedge accounting (Continued)

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in the finance costs in the statement of profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the rendering of services, on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services" below;
- (c) rental income, on a time proportion basis over the lease terms;
- (d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset; and
- (e) dividend income, when the shareholders' right to receive payment has been established.

Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contracts for services (Continued)

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Employee benefits

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is calculated by using a binomial model, further details of which are given in note 31 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefit expense. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other employee benefits

Pension schemes and other retirement benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries, limited to a maximum of HK\$1,250 per month per employee, and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, final dividends are recognised immediately as a liability when they are proposed and declared.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

These financial statements are presented in HK\$, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries are currencies other than HK\$. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into HK\$ at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into HK\$ at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into HK\$ at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgement

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

NOTES TO FINANCIAL STATEMENTS

31 December 2013

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Judgement (Continued)

Income taxes

Significant judgements on the future tax treatment of certain transactions are required in determining income tax provisions. The Group carefully evaluates tax implications of transactions and tax provisions are recorded accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

Estimation uncertainty

The key assumption concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below:

Impairment of assets

The Group determines whether an asset is impaired at least on an annual basis or where an indication of impairment exists. This requires an estimation of the value in use of the asset. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the asset and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. No deferred assets were related to recognised tax losses at 31 December 2013 and 2012. The amount of unrecognised tax losses at 31 December 2013 was HK\$26,467,000 (2012: HK\$24,411,000). Further details are set out in note 29 to the financial statements.

Share-based payments

The Group measures the costs of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating the fair value for share-based payments requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the options, volatility and dividend yield and making assumptions about them. The assumptions and model used for the estimation of the fair value for share-based payments are disclosed in note 31 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on the geographical locations of the customers and has six reportable operating segments as follows:

- (a) Thailand;
- (b) Malaysia;
- (c) Mainland China, Macau and Hong Kong;
- (d) North America;
- (e) Europe; and
- (f) Other countries.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income and finance costs are excluded from such measurement.

Segment assets exclude unallocated head office and corporate assets as these assets are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

4. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2013	Thailand HK\$'000	Malaysia HK\$'000	Mainland China, Macau and Hong Kong HK\$'000	North America HK\$'000	Europe HK\$'000	Other countries HK\$'000	Total HK\$'000
Segment revenue:							
Sales to external customers	68,337	175,270	191,200	238,420	153,280	51,573	878,080
Intersegment sales	12,890	–	–	–	–	–	12,890
Other revenue	595	–	3,094	–	–	–	3,689
	81,822	175,270	194,294	238,420	153,280	51,573	894,659
<i>Reconciliation:</i>							
Elimination of intersegment sales							(12,890)
Revenue							881,769
Segment results	599	6,420	7,014	6,580	5,623	1,658	27,894
<i>Reconciliation:</i>							
Elimination of intersegment results							(4,637)
Interest income							11,720
Finance costs							(20,215)
Profit before tax							14,762
Income tax expense							(12,414)
Profit for the year							2,348
Segment assets	141,477	34,573	2,009,180	56,847	42,820	860	2,285,757
<i>Reconciliation:</i>							
Elimination of intersegment receivables							(9,373)
Corporate and other unallocated assets							74
Total assets							2,276,458
Segment liabilities	29,634	–	785,486	3,712	5,089	19,350	843,271
<i>Reconciliation:</i>							
Elimination of intersegment payables							(9,373)
Total liabilities							833,898

NOTES TO FINANCIAL STATEMENTS

31 December 2013

4. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2013	Thailand HK\$'000	Malaysia HK\$'000	Mainland China, Macau and Hong Kong HK\$'000	North America HK\$'000	Europe HK\$'000	Other countries HK\$'000	Total HK\$'000
Other segment information:							
Impairment reversed in the statement of profit or loss	(514)	–	(2,154)	–	–	–	(2,668)
Depreciation and amortisation	18,886	–	151,394	–	–	–	170,280
Capital expenditure*	1,161	–	118,422	–	–	–	119,583
Change in fair value of derivative financial instruments — Forward currency contracts	–	–	615	–	–	–	615
(Gain)/loss on disposal of items of property, plant and equipment	(291)	–	93	–	–	–	(198)

* Capital expenditure consists of additions to property, plant and equipment and prepayment for a land lease.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

4. OPERATING SEGMENT INFORMATION (Continued)

Year ended			Mainland China, Macau and Hong Kong	North America	Europe	Other countries	Total
31 December 2012	Thailand HK\$'000	Malaysia HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:							
Sales to external customers	95,690	296,193	240,608	166,731	120,418	55,012	974,652
Intersegment sales	34,006	–	–	–	–	–	34,006
Other revenue	354	–	10,370	–	–	–	10,724
	130,050	296,193	250,978	166,731	120,418	55,012	1,019,382
<i>Reconciliation:</i>							
Elimination of intersegment sales							(34,006)
Revenue							985,376
Segment results							
	2,060	30,610	27,335	17,544	13,679	6,247	97,475
<i>Reconciliation:</i>							
Elimination of intersegment results							(6,686)
Interest income							13,356
Finance costs							(16,587)
Profit before tax							87,558
Income tax expense							(17,124)
Profit for the year							70,434
Segment assets							
	161,404	44,258	1,706,196	35,278	24,443	6,691	1,978,270
<i>Reconciliation:</i>							
Elimination of intersegment receivables							(7,183)
Corporate and other unallocated assets							50
Total assets							1,971,137
Segment liabilities							
	15,728	–	533,062	3,852	7,182	9,655	569,479
<i>Reconciliation:</i>							
Elimination of intersegment payables							(7,183)
Total liabilities							562,296

NOTES TO FINANCIAL STATEMENTS

31 December 2013

4. OPERATING SEGMENT INFORMATION (Continued)

Year ended			Mainland China, Macau and Hong Kong	North America	Europe	Other countries	Total
31 December 2012	Thailand HK\$'000	Malaysia HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other segment information:							
Impairment losses (reversed)/ recognised in the statement of profit or loss	(751)	-	1,233	-	-	-	482
Depreciation and amortisation	21,340	-	144,621	-	-	-	165,961
Capital expenditure*	4,581	-	44,955	-	-	-	49,536
Change in fair value of derivative financial instruments							
— Interest rate swap	-	-	(384)	-	-	-	(384)
— Forward currency contracts	-	-	(4,250)	-	-	-	(4,250)
Loss on disposal of items of property, plant and equipment							
	375	-	493	-	-	-	868

* Capital expenditure represents additions to property, plant and equipment.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

4. OPERATING SEGMENT INFORMATION (Continued)

Business segment information

(a) Revenue by product

	2013 HK\$'000	2012 HK\$'000
HDD components	273,139	465,803
Hydraulic equipment components	266,663	222,797
Automotive components	274,849	210,438
Others	63,429	75,614
	878,080	974,652

(b) Non-current assets

	2013 HK\$'000	2012 HK\$'000
Thailand	79,057	102,794
Mainland China, Macau and Hong Kong	884,502	898,615
	963,559	1,001,409

The non-current assets information above is based on the locations of the assets and excludes deferred tax assets.

Information about major customers

Revenue of approximately HK\$90 million was derived from sales by the HDD components segment to a single customer (2012: HK\$194 million and HK\$102 million from two customers).

NOTES TO FINANCIAL STATEMENTS

31 December 2013

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts during the year.

An analysis of the Group's revenue, other income and gains is as follows:

	2013 HK\$'000	2012 HK\$'000
Revenue		
Sale of goods and materials	871,187	970,296
Rendering of services	6,893	4,356
	878,080	974,652
Other income		
Interest income	11,720	13,356
Others	3,491	2,520
	15,211	15,876
Gains		
Fair value gains:		
Derivative financial instruments — transactions not qualified as hedges:		
Interest rate swap	–	384
Forward currency contracts	–	4,250
Foreign exchange differences, net	–	3,570
Gain on disposal of items of property, plant and equipment	198	–
	198	8,204
	15,409	24,080

NOTES TO FINANCIAL STATEMENTS

31 December 2013

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2013 HK\$'000	2012 HK\$'000
Cost of inventories sold*		716,208	763,043
Depreciation	14	167,983	163,723
Amortisation of land lease payments	15	2,297	2,238
Auditors' remuneration		2,940	2,915
Employee benefit expense (excluding directors' remuneration (note 8)):			
Wages and salaries		157,647	167,375
Equity-settled share option expense**		16,755	4,634
Pension scheme contributions***		8,589	6,050
		182,991	178,059
Minimum lease payments under operating leases:			
Land and buildings		1,846	1,759
Equipment		363	172
		2,209	1,931
Foreign exchange differences, net		3,951	(3,570)
Research and development costs****		6,808	5,057
Fair value losses/(gains), net:			
Derivative financial instruments — transactions not qualified as hedges:			
Interest rate swap	26	—	(384)
Forward currency contracts	26	615	(4,250)
		615	(4,634)
Interest income		(11,720)	(13,356)
(Gain)/loss on disposal of items of property, plant and equipment		(198)	868
(Reversal of provision)/provision against inventory obsolescence	20	(2,668)	482

Notes:

* The cost of inventories sold includes an amount of approximately HK\$285,889,000 (2012: HK\$294,622,000) relating to the employee benefit expense, depreciation and operating lease charges, the amounts of which were also included in the respective total amounts disclosed above for each of these types of expenses.

** The equity-settled share option expense for the year is included in "Administrative expenses" on the face of the consolidated statement of profit or loss.

*** At 31 December 2013, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2012: Nil).

**** The research and development costs are included in "Cost of sales", "Administrative expenses" and "Other expenses" on the face of the consolidated statement of profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Group	
	2013	2012
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	15,825	14,568
Interest on finance leases	1,020	1,608
Financial arrangement fees	3,370	411
	20,215	16,587

8. DIRECTORS' REMUNERATION

The remuneration of the directors of the Company for the year disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance is analysed as follows:

	Group	
	2013	2012
	HK\$'000	HK\$'000
Fees	2,517	2,700
Other emoluments:		
Salaries, allowances and benefits in kind	4,874	4,780
Equity-settled share option expense	2,080	2,663
Pension scheme contributions	81	77
	7,035	7,520
	9,552	10,220

During the current and the prior years, some of the directors were granted share options, in respect of their services to the Group, under the share option schemes of the Company, further details of which are set out in note 31 to the financial statements. The fair value of these options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amounts included in the financial statements for the current year and the prior year are included in the above directors' remuneration disclosures.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

8. DIRECTORS' REMUNERATION (Continued)

(a) Independent non-executive directors

The fees paid to and equity-settled share option expense incurred by independent non-executive directors during the year were as follows:

2013

	Fees HK\$'000	Equity-settled share option expense HK\$'000	Total remuneration HK\$'000
Dr. Cheng Ngok	100	–	100
Mr. Choi Hon Ting, Derek	100	–	100
Mr. Wu Karl Kwok	100	–	100
Mr. Nguyen, Van Tu Peter	100	–	100
	400	–	400

2012

	Fees HK\$'000	Equity-settled share option expense HK\$'000	Total remuneration HK\$'000
Dr. Cheng Ngok	100	22	122
Mr. Choi Hon Ting, Derek	100	17	117
Mr. Wu Karl Kwok	100	17	117
Mr. Nguyen, Van Tu Peter	100	231	331
	400	287	687

There were no other emoluments payable to the independent non-executive directors during the year (2012: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2013

8. DIRECTORS' REMUNERATION (Continued)

(b) Executive directors

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Equity-settled share option expense HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
2013					
Executive directors:					
Mr. Chui Siu On	390	1,520	2,080	15	4,005
Mr. Ho Yu Hoi	407	941	–	–	1,348
Mr. Lai Man Kit	360	628	–	15	1,003
Mr. Li Chi Hang	240	452	–	21	713
Mr. Lau Siu Chung	360	559	–	15	934
Mr. Yuen Chi Ho	360	774	–	15	1,149
	2,117	4,874	2,080	81	9,152

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Equity-settled share option expense HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
2012					
Executive directors:					
Mr. Chui Siu On	390	1,220	1,766	14	3,390
Mr. Ho Yu Hoi	406	941	–	–	1,347
Mr. Lai Man Kit	360	628	–	14	1,002
Mr. Li Chi Hang	240	447	–	14	701
Mr. Wong Kwok Keung	184	276	209	7	676
Mr. Lau Siu Chung	360	530	209	14	1,113
Mr. Yuen Chi Ho	360	738	192	14	1,304
	2,300	4,780	2,376	77	9,533

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2012: Nil). In addition, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group, or as a compensation for loss of office (2012: Nil).

9. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid employees during the year were five (2012: five) directors, details of whose remuneration are set out in note 8 above.

NOTES TO FINANCIAL STATEMENTS

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10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

	Group 2013 HK\$'000	2012 HK\$'000
Group:		
Current — Hong Kong	260	1,784
Current — Elsewhere	10,877	13,881
Deferred (note 29)	1,277	1,459
Total tax charge for the year	12,414	17,124

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the countries/jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	Group 2013 HK\$'000	2012 HK\$'000
Profit before tax	14,762	87,558
Tax at the applicable tax rates	2,806	17,576
Expenses not deductible for tax	13,580	10,319
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	1,224	1,235
Income not subject to tax	(8,764)	(15,050)
Tax losses not recognised	3,568	3,044
Tax charge at the Group's effective rate of 84.1% (2012: 19.6%)	12,414	17,124

Integrated Precision Engineering (Thailand) Company Limited ("IPE Thailand"), a subsidiary incorporated in Thailand, is subject to income tax in Thailand at a rate of 20% (2012: 23%). IPE Thailand has four production factories, Factory I and Factory II (Phase 1), Factory II (Phase 2) and Factory III. Factory II (Phase 1) and Factory II (Phase 2) are currently enjoying exemptions from income tax granted by the Board of Investment, a government authority in Thailand, for income generated for respective periods of ten years from 1 July 2005 to 30 June 2015 under Certificate Number 1503(6)/2548 and eight years from 1 April 2011 to 31 March 2019 under Certificate Number 1666(1)/2553.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

10. INCOME TAX (Continued)

Under Decree-Law no.58/99/M, companies in Macau incorporated under that Decree-Law (referred to as the "58/99/M companies") are exempted from Macau complementary tax (Macau income tax) as long as they do not sell their products to a Macau resident company. IPE Macao Commercial Offshore Limited, a subsidiary of the Group in Macau, is qualified as a 58/99/M company.

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company for the year ended 31 December 2013 includes a profit of HK\$27,633,000 (2012: HK\$129,073,000) which has been dealt with in the financial statements of the Company (note 32(b)).

12. DIVIDENDS

	2013 HK\$'000	2012 HK\$'000
Interim dividend — Nil (2012: HK1.0 cent per ordinary share)	—	9,294
Proposed final dividend — Nil (2012: HK1.2 cents per ordinary share)	—	11,177
	—	20,471

The board of directors of the Company does not recommend the payment of any final dividend for the year ended 31 December 2013 (2012: HK1.2 cents per ordinary share).

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the year.

The calculation of the diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

NOTES TO FINANCIAL STATEMENTS

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13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY (Continued)

The calculations of basic and diluted earnings per share are based on:

	2013 HK\$'000	2012 HK\$'000
Earnings		
Profit attributable to ordinary equity holders of the Company used in the basic earnings per share calculation	1,827	70,522
	Number of shares	
	2013	2012
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	925,889,553	928,261,495
Effect of dilution — weighted average number of ordinary shares:		
Share options	9,736,362	12,124,745
	935,625,915	940,386,240

NOTES TO FINANCIAL STATEMENTS

31 December 2013

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
Cost:							
At 1 January 2013	386,342	14,891	1,494,740	59,046	21,149	39,361	2,015,529
Additions	3,862	202	9,861	580	790	99,164	114,459
Transfer in/(out)	7,258	–	20,762	2,325	10	(30,355)	–
Disposals	(164)	–	(22,946)	(144)	(2,001)	(1,370)	(26,625)
Exchange realignment	4,887	376	20,561	1,141	331	1,966	29,262
At 31 December 2013	402,185	15,469	1,522,978	62,948	20,279	108,766	2,132,625
Accumulated depreciation:							
At 1 January 2013	(135,629)	(5,671)	(919,850)	(45,142)	(15,338)	–	(1,121,630)
Depreciation provided during the year (note 6)	(18,801)	(1,261)	(139,727)	(5,969)	(2,225)	–	(167,983)
Disposals — accumulated depreciation	38	–	22,743	144	2,001	–	24,926
Exchange realignment	(1,722)	(130)	(10,286)	(858)	(240)	–	(13,236)
At 31 December 2013	(156,114)	(7,062)	(1,047,120)	(51,825)	(15,802)	–	(1,277,923)
At 31 December 2013							
Cost	402,185	15,469	1,522,978	62,948	20,279	108,766	2,132,625
Accumulated depreciation	(156,114)	(7,062)	(1,047,120)	(51,825)	(15,802)	–	(1,277,923)
Net carrying amount	246,071	8,407	475,858	11,123	4,477	108,766	854,702
At 31 December 2012							
Cost	386,342	14,891	1,494,740	59,046	21,149	39,361	2,015,529
Accumulated depreciation	(135,629)	(5,671)	(919,850)	(45,142)	(15,338)	–	(1,121,630)
Net carrying amount	250,713	9,220	574,890	13,904	5,811	39,361	893,899

NOTES TO FINANCIAL STATEMENTS

31 December 2013

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Land and buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
Cost:							
At 1 January 2012	355,448	14,652	1,460,218	56,840	21,761	43,550	1,952,469
Additions	4,703	–	1,705	504	446	42,178	49,536
Transfer in/(out)	19,965	25	24,813	1,713	55	(46,571)	–
Disposals	(639)	–	(18,738)	(1,013)	(1,414)	(515)	(22,319)
Exchange realignment	6,865	214	26,742	1,002	301	719	35,843
At 31 December 2012	386,342	14,891	1,494,740	59,046	21,149	39,361	2,015,529
Accumulated depreciation:							
At 1 January 2012	(116,389)	(4,074)	(786,403)	(38,065)	(13,213)	–	(958,144)
Depreciation provided during the year (note 6)	(17,271)	(1,489)	(134,886)	(7,310)	(2,767)	–	(163,723)
Disposals — accumulated depreciation	311	–	17,432	969	846	–	19,558
Exchange realignment	(2,280)	(108)	(15,993)	(736)	(204)	–	(19,321)
At 31 December 2012	(135,629)	(5,671)	(919,850)	(45,142)	(15,338)	–	(1,121,630)
At 31 December 2012							
Cost	386,342	14,891	1,494,740	59,046	21,149	39,361	2,015,529
Accumulated depreciation	(135,629)	(5,671)	(919,850)	(45,142)	(15,338)	–	(1,121,630)
Net carrying amount	250,713	9,220	574,890	13,904	5,811	39,361	893,899

The Group's leasehold land included in property, plant and equipment with a net carrying amount of HK\$756,000 (2012: HK\$780,000) is situated in Hong Kong and is held under a medium term lease.

The freehold land amounting to Thai Baht19,201,000 (equivalent to HK\$4,543,000) included in land and buildings is situated in Thailand (2012: Thai Baht19,201,000 (equivalent to HK\$4,880,000)).

The net carrying amount of the Group's property, plant and equipment held under finance leases included in the total amount of plant and machinery as at 31 December 2013 amounted to HK\$54,202,000 (2012: HK\$76,973,000).

NOTES TO FINANCIAL STATEMENTS

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15. PREPAID LAND LEASE PAYMENTS

	Group	
	2013 HK\$'000	2012 HK\$'000
Carrying amount at 1 January	99,899	100,478
Recognised during the year (note 6)	(2,297)	(2,238)
Exchange realignment	2,809	1,659
Carrying amount at 31 December	100,411	99,899
Current portion included in prepayments, deposits and other receivables	(2,297)	(2,238)
Non-current portion	98,114	97,661

The leasehold lands are held under medium term leases and are situated in Mainland China.

16. GOODWILL

Group

	HK\$'000
At 31 December 2012:	
Cost	1,950
Accumulated impairment	(1,950)
Net carrying amount	–
At 31 December 2013:	
Cost	1,950
Accumulated impairment	(1,950)
Net carrying amount	–

17. INVESTMENTS IN SUBSIDIARIES

	Company	
	2013 HK\$'000	2012 HK\$'000
Unlisted shares, at cost	43	43

The amounts due from subsidiaries of HK\$808,434,000 (2012: HK\$784,845,000) included in the Company's current assets are unsecured, interest-free and repayable on demand.

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17. INVESTMENTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Best Device Group Limited ("Best Device")	British Virgin Islands/ Hong Kong	US\$5,528	100%	–	Investment holding
Cyber Starpower Limited	British Virgin Islands/ Hong Kong	US\$1,000	–	100%	Investment holding
Anglo Dynamic Limited	British Virgin Islands/ Hong Kong	US\$2,000	–	100%	Investment holding
Tai Situpa Group Limited	British Virgin Islands/ Hong Kong	US\$2,000	–	100%	Investment holding
Lewiston Group Limited	British Virgin Islands/ Hong Kong	US\$1,000	–	100%	Investment holding
Integrated Precision Engineering (Thailand) Company Limited	Thailand	Thai Baht 150,000,000	–	99.99%	Trading and manufacture of precision metal components
Integrated Precision Engineering Company Limited	Hong Kong	HK\$3,000,000	–	100%	Trading of precision metal components and investment holding
IPE Macao Commercial Offshore Limited	Macao	Macao Pataca 100,000	–	100%	Trading of precision metal components
Dongguan Koda Metal Products Company Limited ("Dongguan Koda")*	PRC/ Mainland China	HK\$213,000,000	–	100%	Manufacture of precision metal components
Guangzhou Xin Hao Precision Metal Products Company Limited ("Xin Hao")**	PRC/ Mainland China	HK\$742,000,000	–	100%	Manufacture of precision metal components
Cullygrat Surface Treatment (Taicang) Company Limited ("Taicang")***	PRC/ Mainland China	HK\$5,000,000	–	61%	Surface and deburring treatment services
International Precision Engineering Company Limited	Hong Kong	HK\$1,000	–	100%	Investment holding
Jiangsu Koda Precision Engineering Company Limited ("Jiangsu Koda")****	PRC/ Mainland China	US\$30,124,185	–	100%	Manufacture of precision metal components

NOTES TO FINANCIAL STATEMENTS

31 December 2013

17. INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Guangzhou Keyi Limited Precision Engineering Company ("Guangzhou Keyi")*****	PRC/ Mainland China	RMB1,000,000	–	100%	Manufacture of precision metal components

* Dongguan Koda is a wholly-foreign-owned enterprise under PRC law with a registered capital of HK\$213,000,000, which has been fully contributed.

** Xin Hao is a wholly-foreign-owned enterprise under PRC law. During the year, the registered capital of Xin Hao decreased from HK\$959,000,000 to HK\$742,000,000, which has been fully contributed up to 31 December 2013.

*** Taicang is a non-wholly-foreign-owned enterprise under PRC law with a registered capital of HK\$5,000,000, which has been fully contributed. Taicang is accounted for as a subsidiary by virtue of the Company's control over it.

**** Jiangsu Koda is a wholly-foreign-owned enterprise under PRC law with a registered capital of US\$40,000,000. Up to 31 December 2013, US\$30,124,185 has been contributed.

***** Guangzhou Keyi is a wholly-foreign-owned enterprise under PRC law with a registered capital of RMB1,000,000, which has been fully contributed.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

18. LOAN TO AN UNLISTED EQUITY INVESTMENT

The Group's loan to an unlisted equity investment is unsecured, interest-free and has no fixed terms of repayment. In the opinion of the directors, the advance is considered as a quasi-equity loan to the unlisted equity investment and the loan is not expected to be repaid within the next twelve months from the year end date.

NOTES TO FINANCIAL STATEMENTS

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19. AVAILABLE-FOR-SALE INVESTMENT

	Group 2013 HK\$'000	2012 HK\$'000
Unlisted equity investment, at cost	150	150

At 31 December 2013, an unlisted equity investment with a carrying amount of HK\$150,000 (2012: HK\$150,000) was stated at cost because the variability in the range of the reasonable fair value estimates of the unlisted equity investment is significant and hence the directors are of the opinion that its fair value cannot be measured reliably.

20. INVENTORIES

	Group 2013 HK\$'000	2012 HK\$'000
Raw materials	66,267	85,044
Consumables	44,005	45,545
Work in progress	31,103	58,441
Finished goods	89,711	92,121
	231,086	281,151
Less: Provision against inventory obsolescence	(22,582)	(25,250)
	208,504	255,901

21. TRADE RECEIVABLES

	Group 2013 HK\$'000	2012 HK\$'000
Trade receivables	242,615	195,534

The Group's trading terms with its customers are mainly on credit, except for new customers where payments in advance are normally required. The credit period generally ranges from 30 to 90 days, but longer credit terms will be granted to certain major customers with the approval of the directors. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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21. TRADE RECEIVABLES (Continued)

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date, is as follows:

	Group	
	2013	2012
	HK\$'000	HK\$'000
Within 1 month	74,815	60,498
1 to 2 months	77,024	62,147
2 to 3 months	46,186	36,459
3 to 4 months	24,292	17,702
4 to 12 months	20,298	18,728
	242,615	195,534

The aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	Group	
	2013	2012
	HK\$'000	HK\$'000
Neither past due nor impaired	192,191	156,216
Less than 90 days past due	42,931	33,579
90 to 180 days past due	7,456	4,991
Over 180 days past due	37	748
	242,615	195,534

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

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22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
Prepayments	6,677	5,330	244	246
Deposits and other receivables*	99,313	11,960	31	–
	105,990	17,290	275	246

* Deposits and other receivables include an amount of HK\$89,614,000 (2012: Nil) which represents the principals and interest receivables in relation to the financial product investments, which bears interest at rates ranging from 2.00% to 8.42% per annum.

None of the above assets is either past due or impaired. The financial assets included in the above balances related to receivables for which there was no recent history of default.

23. CASH AND CASH EQUIVALENTS

	Group		Company	
	2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
Cash and bank balances	393,488	297,838	6,960	6,474
Time deposits	361,857	202,018	–	–
Cash and cash equivalents	755,345	499,856	6,960	6,474

At the end of the reporting period, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to HK\$330,438,000 (2012: HK\$251,431,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and one year depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

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24. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	Group	
	2013	2012
	HK\$'000	HK\$'000
Within 1 month	27,194	21,992
1 to 2 months	24,030	19,061
2 to 3 months	11,142	9,710
Over 3 months	7,251	4,657
	69,617	55,420

The trade and bills payables are non-interest-bearing and are normally settled on terms ranging from 30 to 90 days.

25. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2013	2012	2013	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other payables*	13,560	15,163	–	–
Accruals	23,968	16,847	51	44
	37,528	32,010	51	44
Portion classified as non-current:				
Other payables*	(2,062)	(1,676)	–	–
Current portion	35,466	30,334	51	44

* The non-current portion of other payables as at 31 December 2013 and 31 December 2012 mainly represented a deferred lease payment arising from a rent-free period of two years for the plant of a subsidiary.

NOTES TO FINANCIAL STATEMENTS

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26. DERIVATIVE FINANCIAL INSTRUMENTS

	Group	
	2013	2012
	HK\$'000	HK\$'000
Derivative financial instruments — transactions not qualified as hedges		
Assets		
Forward currency contracts*		
— current portion	—	615

* During the year 2011, the Group entered into three forward currency contracts to manage its exchange rate exposure. These forward currency contracts were not designated for hedge purposes and were measured at fair value through profit or loss. The agreements required the Group to buy RMB with United States dollars ("US\$") at pre-agreed exchange rates on pre-determined dates up to July 2013, September 2013 and October 2013, respectively.

During the year 2012, the Group further entered into two forward currency contracts to manage its exchange rate exposure. These forward currency contracts were not designated for hedge purposes and were measured at fair value through profit or loss. The agreements required the Group to buy RMB with US\$ at pre-agreed exchange rates on pre-determined dates up to December 2013 and February 2014, respectively. The forward currency contract which was pre-determined to be expired up to February 2014 was terminated with effect from 27 December 2012.

NOTES TO FINANCIAL STATEMENTS

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27. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group	2013			2012		
	Effective contractual interest rate (%)	Maturity	HK\$'000	Effective contractual interest rate (%)	Maturity	HK\$'000
Current						
Finance lease payables (note 28)	4.00	2014	13,481	3.75–4.00	2013	15,182
Unsecured Bank revolving loans	1.97–2.47	2014	56,000	1.20–3.03	2013	116,200
Bank term loans	2.86–2.87	2014	42,317	1.98	2013	6,250
Other bank loans	1.78–2.04	2014	53,540	1.62–2.90	2013	69,253
Long term bank loans repayable on demand	2.38–3.72	On demand	261,597	2.53–3.78	On demand	227,759
			426,935			434,644
Non-current						
Finance lease payables (note 28)	4.00	2015	3,460	4.00	2015	16,941
Unsecured Bank term loans	2.86–2.87	2016	276,423	–	–	–
			279,883			16,941
			706,818			451,585

NOTES TO FINANCIAL STATEMENTS

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27. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

	Group	
	31 December	31 December
	2013	2012
	HK\$'000	HK\$'000
Analysed into:		
Bank revolving loans, term loans and long term bank loans repayable:		
Within one year or on demand	359,914	350,209
In the second year	182,137	–
In the third to fifth years, inclusive	94,286	–
	636,337	350,209
Other bank loans repayable:		
Within one year	53,540	69,253
Other borrowings repayable:		
Within one year	13,481	15,182
In the second year	3,460	13,481
In the third to fifth years, inclusive	–	3,460
	16,941	32,123
	706,818	451,585

Notes:

- (a) At 31 December 2013 and 2012, all the interest-bearing bank and other borrowings were unsecured.
- (b) At 31 December 2013, except for the unsecured bank loans of HK\$4,420,000 (2012: HK\$125,427,000) which were denominated in US\$, all borrowings were in HK\$.
- (c) The Group's other loans are unsecured, bear interest at rates ranging from 2.96% to 3.22% below above the Hong Kong dollar prime rate per annum and are all repayable by 24 monthly equal instalments.

NOTES TO FINANCIAL STATEMENTS

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28. FINANCE LEASE PAYABLES

The Group leases certain of its plant and machinery for its high precision metal component business. These leases are classified as finance leases and have remaining lease terms within two years.

At 31 December 2013, the total future minimum lease payments under finance leases and their present values were as follows:

Group	Minimum lease payments 2013 HK\$'000	Minimum lease payments 2012 HK\$'000	Present value of minimum lease payments 2013 HK\$'000	Present value of minimum lease payments 2012 HK\$'000
Amounts payable:				
Within one year	13,913	16,208	13,481	15,182
In the second year	3,483	13,913	3,460	13,481
In the third to fifth years, inclusive	–	3,483	–	3,460
Total minimum finance lease payments	17,396	33,604	16,941	32,123
Future finance charges	(455)	(1,481)		
Total net finance lease payables	16,941	32,123		
Portion classified as current liabilities (note 27)	(13,481)	(15,182)		
Non-current portion (note 27)	3,460	16,941		

NOTES TO FINANCIAL STATEMENTS

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29. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year were as follows:

Deferred tax liabilities

Group	Depreciation allowance in excess of related depreciation HK\$'000	2013 Withholding tax for distributable profits of the PRC subsidiaries HK\$'000	Total HK\$'000
At 1 January 2013	640	4,813	5,453
Deferred tax (credited)/charged to the statement of profit or loss during the year (note 10)	(1)	1,224	1,223
Exchange realignment	(25)	–	(25)
At 31 December 2013	614	6,037	6,651

Deferred tax assets

Group	2013 Write-back of inventory provision HK\$'000
At 1 January 2013	532
Deferred tax charged to the statement of profit or loss during the year (note 10)	(54)
Exchange realignment	(33)
At 31 December 2013	445

NOTES TO FINANCIAL STATEMENTS

31 December 2013

29. DEFERRED TAX (Continued)

Deferred tax liabilities

Group	Depreciation allowance in excess of related depreciation HK\$'000	2012 Withholding tax for distributable profits of the PRC subsidiaries HK\$'000	Total HK\$'000
At 1 January 2012	628	3,578	4,206
Deferred tax charged to the statement of profit or loss during the year (note 10)	2	1,235	1,237
Exchange realignment	10	–	10
At 31 December 2012	640	4,813	5,453

Deferred tax assets

Group	2012 Write-back of inventory provision HK\$'000
At 1 January 2012	736
Deferred tax charged to the statement of profit or loss during the year (note 10)	(222)
Exchange realignment	18
At 31 December 2012	532

NOTES TO FINANCIAL STATEMENTS

31 December 2013

29. DEFERRED TAX (Continued)

Deferred tax assets (Continued)

Deferred tax assets have not been recognised in respect of the following items:

	Group		Company	
	2013	2012	2013	2012
	HK\$000	HK\$000	HK\$000	HK\$000
Tax losses	26,467	24,411	10,237	6,722
Deductible temporary differences	132,065	117,507	–	–
	158,532	141,918	10,237	6,722

The Group has tax losses arising in Mainland China of HK\$10,846,000 (2012: HK\$3,373,000) that will expire in one to five years for offsetting against future taxable profits.

The Group also has tax losses arising in countries and areas outside Mainland China of HK\$15,621,000 (2012: HK\$21,038,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and the jurisdiction of the foreign investor. For the Group, the applicable rate is 5%. The Group is therefore liable for withholding taxes on dividends to be distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

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30. SHARE CAPITAL

Shares

	2013 HK\$'000	2012 HK\$'000
Authorised: 1,500,000,000 (2012: 1,500,000,000) ordinary shares of HK\$0.1 each	150,000	150,000
Issued and fully paid: 910,823,943 (2012: 931,087,790) ordinary shares of HK\$0.1 each	91,082	93,109

The movements in share capital for the years ended 31 December 2013 and 2012 were as follows:

	Notes	Number of shares in issue	Issued capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 31 December 2011 and 1 January 2012		926,635,290	92,664	392,938	485,602
Share options exercised	(a)	7,592,500	759	3,359	4,118
Repurchase of shares	(b)	(3,140,000)	(314)	(1,568)	(1,882)
		931,087,790	93,109	394,729	487,838
Share issue expenses		–	–	(20)	(20)
At 31 December 2012		931,087,790	93,109	394,709	487,818
Share options exercised	(c)	3,081,153	308	1,367	1,675
Repurchase of shares	(d)	(23,345,000)	(2,335)	(9,947)	(12,282)
		910,823,943	91,082	386,129	477,211
Share issue expenses		–	–	(3)	(3)
At 31 December 2013		910,823,943	91,082	386,126	477,208

NOTES TO FINANCIAL STATEMENTS

31 December 2013

30. SHARE CAPITAL (Continued)

Shares (Continued)

A summary of the transactions with reference to the above movements in the Company's issued capital is as follows:

- (a) The subscription rights attaching to 7,592,500 share options were exercised in 2012 at the subscription price of HK\$0.35 per share (note 31), resulting in the issue of 7,592,500 shares of HK\$0.1 each for a total cash consideration, before expenses, of approximately HK\$2.7 million. An amount of approximately HK\$1,427,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options.
- (b) The Company repurchased its own shares on the Stock Exchange during the year ended 31 December 2012. The shares were cancelled upon repurchase and accordingly the issued capital of the Company was reduced by the nominal value of these shares. The premium on the repurchase was charged against share premium. An amount equivalent to the nominal value of the shares cancelled was transferred from retained profits to the capital redemption reserve.
- (c) The subscription rights attaching to 3,081,153 share options were exercised in 2013 at the subscription price of HK\$0.35 per share (note 31), resulting in the issue of 3,081,153 shares of HK\$0.1 each for a total cash consideration, before expenses, of approximately HK\$1.1 million. An amount of approximately HK\$584,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options.
- (d) The Company repurchased its own shares on the Stock Exchange during the year ended 31 December 2013. The shares were cancelled upon repurchase and accordingly the issued capital of the Company was reduced by the nominal value of these shares. The premium on the repurchase was charged against share premium. An amount equivalent to the nominal value of the shares cancelled was transferred from retained profits to the capital redemption reserve.

Share options

Details of the Company's share option schemes and the share options issued under the schemes are set out in note 31 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

31. SHARE OPTION SCHEME

The Company's Share Option Scheme 2004 (the "2004 Scheme") was adopted pursuant to a resolution in writing of the sole shareholder dated 12 October 2004 which became effective on 1 November 2004, the date on which the shares of the Company were listed on the Stock Exchange. In 2011, the Company has terminated the 2004 Scheme and adopted a New Share Option Scheme (the "2011 Scheme") pursuant to a resolution passed in the annual general meeting dated 17 May 2011 which became effective on the same date. The 2011 Scheme will remain in force for ten years commencing from the effective date, after which period no further options will be granted but the provisions of this 2011 Scheme shall remain in full force in all other respects.

2004 Scheme

The purpose of the 2004 Scheme was to provide incentives and rewards to eligible participants who contributed to the success of the Group's operations. Under the 2004 Scheme, the directors of the Company were authorised at their absolute discretion, to invite any directors (including the executive, non-executive and independent non-executive directors) and full-time employees of any members of the Group and any advisors, consultants, distributors, contributors, suppliers, agents, customers, joint venture business partners, promoters, service providers of any members of the Group who were eligible to participate in the 2004 Scheme, to take up options to subscribe for shares in the Company.

The maximum number of shares which may be issued upon exercise of all options to be granted under the 2004 Scheme of the Company shall not, in aggregate, exceed 10% of the total number of shares in issue as at any time.

At the date of approval of these financial statements, no further options were available for issue under the 2004 Scheme due to its termination on 17 May 2011 (2012: Nil).

2011 Scheme

The purpose of the 2011 Scheme is to provide incentives and rewards to eligible participants for their contribution to the Group, and/or to enable the Group to recruit and retain high-calibre employees and attract the human resources that are valuable to the Group and any entity in which the Group holds any equity interest (the "Invested Entity"). Under 2011 Scheme, the directors of the Company are authorised at their absolute discretion, to invite directors (including executive, non-executive and independent non-executive directors) of the Group or any Invested Entity, employees (whether full-time or part-time) of the Group or any Invested Entity, suppliers of goods or services to any member of the Group or any Invested Entity, any customers of the Group or any Invested Entity, any person or entity that provides research, development or other technological support to the Group or any Invested Entity, and any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity, to take up options to subscribe for shares in the Company.

The maximum number of shares which may be issued upon exercise of all options to be granted under the 2011 Scheme and any other share option schemes of the Company shall not, in aggregate, exceed 3% of the total number of shares in issue as at 14 May 2013, the date of approval of the refreshed limit.

As at the date of approval of these financial statements, the total number of shares of the Company available for issue under the 2011 Scheme was 26,158,759 (2012: 2,671,279) shares, which represented approximately 2.88% (2012: 0.29%) of the Company's shares in issue as at that date.

NOTES TO FINANCIAL STATEMENTS

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31. SHARE OPTION SCHEME (Continued)

The Company may seek approval of the shareholders in a general meeting for refreshing the 10% limit under these schemes save that the total number of shares which may be issued upon exercise of all options to be granted under these schemes and any other share option schemes of the Company under the limit as "refreshed" shall not exceed 10% of the total number of shares in issue as at the date of approval of the refreshed limit. Options previously granted under these schemes and any other share option schemes of the Company (including those outstanding, cancelled, lapsed or exercised in accordance with these schemes and any other schemes) will not be counted for the purpose of calculating the limit.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under these schemes and any other share option schemes of the Company must not exceed 30% of the total number of shares in issue from time to time.

Under these schemes, the total number of shares issued and to be issued upon exercise of the options granted to each eligible participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options under these schemes granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options under these schemes granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The exercise price in respect of any particular option under these schemes shall be such price as determined by the board of directors of the Company at its absolute discretion at the time of the making of the offer but in any case the exercise price shall be at least the highest of (i) the official closing price of the shares as stated in the daily quotation sheet of the Stock Exchange on the offer date; (ii) the average of the official closing prices of the shares as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the offer date; and (iii) the nominal value of a share of the Company.

The offer of a grant of share options under these schemes must be accepted within 28 days from the date of offer, upon payment of a consideration of HK\$1 by the grantee. Under 2004 Scheme, share options may be exercised during the period commencing on the date upon which the share options are accepted and expiring on the last day of a five-year period from such acceptance date or the last day of the period of the 2004 Scheme, whichever is earlier. Under 2011 Scheme, share options may be exercised at any time during a period determined and notified by the board of directors of the Company at its absolute discretion, save that such period shall not be more than 10 years from the offer date subject to the provisions for early termination thereof. There is no minimum period for which an option under these schemes must be held before the exercise of the option except otherwise imposed by the board of directors of the Company.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

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31. SHARE OPTION SCHEME (Continued)

The following share options were outstanding under the 2004 Scheme during the year:

	2013		2012	
	Weighted average exercise price HK\$ per share	Number of options '000	Weighted average exercise price HK\$ per share	Number of options '000
At 1 January	0.61	88,823	0.64	110,320
Forfeited during the year	–	–	0.69	(5,443)
Exercised during the year	0.35	(3,081)	0.35	(7,593)
Expired during the year	–	–	1.19	(8,461)
At 31 December	0.62	85,742	0.61	88,823

The weighted average share price at the date of exercise for share options exercised during the year was HK\$0.56 per share (2012: HK\$0.60 per share).

The following share options were outstanding under the 2011 Scheme during the year:

	2013		2012	
	Weighted average exercise price HK\$ per share	Number of options '000	Weighted average exercise price HK\$ per share	Number of options '000
At 1 January	1.47	71,000	1.82	50,000
Granted during the year	0.71	90,000	0.64	21,000
At 31 December	1.01	161,000	1.47	71,000

No share options under 2011 Scheme were exercised during the year.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

31. SHARE OPTION SCHEME (Continued)

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period under 2004 Scheme are as follows:

2013		
Number of options	Exercise price*	Exercise period
'000	HK\$ per share	
16,922	0.35	01-06-10 to 31-05-14
927	0.35	01-06-11 to 31-05-14
5,924	0.35	01-06-12 to 31-05-14
1,369	0.35	01-06-13 to 31-05-14
40,400	0.72	01-04-12 to 11-10-14
8,400	0.72	01-04-13 to 11-10-14
11,200	0.72	01-04-14 to 11-10-14
600	1.56	28-04-11 to 11-10-14
85,742		

2012		
Number of options	Exercise price*	Exercise period
'000	HK\$ per share	
16,929	0.35	01-06-10 to 31-05-14
1,110	0.35	01-06-11 to 31-05-14
8,619	0.35	01-06-12 to 31-05-14
1,565	0.35	01-06-13 to 31-05-14
40,400	0.72	01-04-12 to 11-10-14
8,400	0.72	01-04-13 to 11-10-14
11,200	0.72	01-04-14 to 11-10-14
600	1.56	28-04-11 to 11-10-14
88,823		

NOTES TO FINANCIAL STATEMENTS

31 December 2013

31. SHARE OPTION SCHEME (Continued)

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period under 2011 Scheme are as follows:

2013		
Number of options '000	Exercise price* HK\$ per share	Exercise period
18,000	1.82	01-09-11 to 31-08-18
18,000	1.82	01-09-12 to 31-08-18
14,000	1.82	01-09-13 to 31-08-18
1,000	0.64	01-05-12 to 31-08-16
20,000	0.64	01-09-14 to 31-08-16
90,000	0.71	01-04-14 to 31-12-17
161,000		
2012		
Number of options '000	Exercise price* HK\$ per share	Exercise period
18,000	1.82	01-09-11 to 31-08-18
18,000	1.82	01-09-12 to 31-08-18
14,000	1.82	01-09-13 to 31-08-18
1,000	0.64	01-05-12 to 31-08-16
20,000	0.64	01-09-14 to 31-08-16
71,000		

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

The fair value of the share options granted during the year was HK\$19,200,000 (2012: HK\$5,255,000) of which the Group recognised a share option expense of HK\$15,238,000 (2012: HK\$1,726,000) during the year ended 31 December 2013.

NOTES TO FINANCIAL STATEMENTS

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31. SHARE OPTION SCHEME (Continued)

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

Under 2011 Scheme

	2013	2012
Dividend yield (%)	2.40%	2.58%
Expected volatility (%)	55%	57%
Historical volatility (%)	55%	57%
Risk-free interest rate (%)	0.39%	0.45%
Expected life of options (year)	4.96	4.36
Weighted average share price (HK\$ per share)	0.71	0.64

The expected life of the options is based on the historical data over the prior periods and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

The 3,081,153 share options exercised under 2004 Scheme during the year resulted in the issue of 3,081,153 ordinary shares of the Company and new share capital of HK\$308,000 and share premium of HK\$1,367,000 (before issue expenses), as further detailed in note 30 to the financial statements.

At the end of the reporting period, the outstanding options of the Company are as follow:

(a) 2004 Scheme

The Company had 85,741,923 share options outstanding under this scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 85,741,923 additional ordinary shares of the Company and additional share capital of HK\$8,574,192, a reversal of share option reserve of HK\$17,067,355 and share premium of HK\$61,542,000 (before issue expenses).

(b) 2011 Scheme

The Company had 161,000,000 share options outstanding under this scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 161,000,000 additional ordinary shares of the Company and additional share capital of HK\$16,100,000, a reversal of share option reserve of HK\$32,502,800 and share premium of HK\$184,742,800 (before issue expenses).

At the date of approval of these financial statements, the Company had 85,621,923 and 161,000,000 share options outstanding under the 2004 Scheme and 2011 Scheme, respectively, which represented approximately 9.4% and 17.7% of the Company's shares in issue as at that date, respectively.

NOTES TO FINANCIAL STATEMENTS

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32. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 44 and 45 of the financial statements.

The Group's contributed surplus represented the difference between the nominal value of the shares and the share premium account of the subsidiaries acquired pursuant to the Group reorganisation prior to the listing of the Company's shares, and the nominal value of the Company's shares issued in exchange therefor.

In accordance with the law of the PRC on wholly-foreign-owned investment enterprises, each of the Company's subsidiaries is required to appropriate an amount of not less than 10% of its profits after tax to the statutory surplus reserve, until the accumulated total of the reserve reaches 50% of its registered capital and thereafter any further appropriation is optional. The reserve can only be used, upon approval of the relevant authority, to offset accumulated losses or increase capital.

The transfer of net profit to the statutory public welfare fund is made at the discretion of the directors at 5% of the net profit of the Company's subsidiaries. The statutory public welfare fund can be used for employees' welfare facilities. The directors did not resolve to make any transfer of retained profits to the statutory public welfare fund for the years ended 31 December 2013 and 2012.

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32. RESERVES (Continued)

(b) Company

	Notes	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Share option reserve HK\$'000	Contributed surplus HK\$'000	Warrant reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2012		375,942	3,108	23,006	(9,958)	1,200	177,737	571,035
Issue of shares	30	3,359	-	(1,427)	-	-	-	1,932
Share issue expenses	30	(20)	-	-	-	-	-	(20)
Transfer of warrant reserve upon the expiry of warrants		-	-	-	-	(1,200)	1,200	-
Repurchase of shares	30	(1,568)	314	-	-	-	(314)	(1,568)
Equity-settled share option arrangements		-	-	7,297	-	-	-	7,297
Transfer of share option reserve upon the forfeiture or expiry of share options		-	-	(3,082)	-	-	3,082	-
Total comprehensive income for the year	11	-	-	-	-	-	129,073	129,073
Interim 2012 dividend	12	-	-	-	-	-	(9,294)	(9,294)
Proposed final 2012 dividend	12	-	-	-	-	-	(11,177)	(11,177)
At 31 December 2012 and 1 January 2013		377,713	3,422	25,794	(9,958)	-	290,307	687,278
Issue of shares	30	1,367	-	(584)	-	-	-	783
Share issue expenses	30	(3)	-	-	-	-	-	(3)
Repurchase of shares	30	(9,947)	2,335	-	-	-	(2,335)	(9,947)
Equity-settled share option arrangements		-	-	18,835	-	-	-	18,835
Total comprehensive income for the year	11	-	-	-	-	-	27,633	27,633
At 31 December 2013		369,130	5,757	44,045	(9,958)	-	315,605	724,579

The Company's contributed surplus arose from the Group's reorganisation in 2004 when the Company issued new shares in exchange for the shares of Best Device, one of the subsidiaries of the Company then acquired.

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33. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2013	2012	2013	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	–	–	1,822,896	1,164,355
Guarantees given to an electricity company	1,333	1,333	–	–
Guarantees given to an energy reduction program	–	71	–	–
	1,333	1,404	1,822,896	1,164,355

At 31 December 2013, the banking facilities granted to the subsidiaries subject to the guarantees given to the banks by the Company were utilised to the extent of approximately HK\$718,654,000 (2012: HK\$451,585,000).

During the year 2008, the Hong Kong Inland Revenue Department has initiated a review on, inter alia, the eligibility of depreciation allowance for certain machinery for Hong Kong profits tax purpose for the past years for Integrated Precision Engineering Company Limited, a wholly-owned subsidiary of the Company. The Group is now gathering relevant information to support the deduction claim in prior years, and the directors of the Company are of the opinion that there is adequate evidence to support the Group's position. The directors of the Company consider that it is premature to draw a conclusion on the possible outcome of the review.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

34. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases certain of its plant under operating lease arrangements, with leases negotiated for terms of two years. The terms of the leases generally also required the tenants to pay security deposits.

At 31 December 2013, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group 2013 HK\$'000	2012 HK\$'000
Within one year	1,057	1,027
In the second year	540	1,050
	1,597	2,077

(b) As lessee

The Group leases certain of its plants and office equipment under operating lease arrangements. Leases for plants and office equipment are negotiated for terms ranging from one to eight years. None of these leases include contingent rentals.

At 31 December 2013, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group 2013 HK\$'000	2012 HK\$'000
Within one year	1,262	1,004
In the second to fifth years, inclusive	2,553	2,377
After five years	1,510	2,056
	5,325	5,437

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35. COMMITMENTS

In addition to the operating lease commitments detailed in note 34(b) above, the Group had the following capital commitments at the end of the reporting period:

	Group	
	2013	2012
	HK\$'000	HK\$'000
Contracted, but not provided for:		
Plant and machinery	2,156	5,630
Buildings	50,503	74,233
	52,659	79,863

The Company did not have any significant commitments as at 31 December 2013 and 2012.

36. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group:

	2013	2012
	HK\$'000	HK\$'000
Short term employee benefits	12,857	13,515
Equity-settled share option expense	2,254	3,012
Post-employment benefits	247	187
Total compensation paid to key management personnel	15,358	16,714

Further details of directors' emoluments are included in note 8 to the financial statements.

Certain of the related party transactions in respect of the compensation of key management personnel of the Group also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

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37. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2013

Financial assets

	Loans and receivables HK\$'000	Group Available-for- sale financial asset HK\$'000	Total HK\$'000
Available-for-sale investment (note 19)	–	150	150
Trade receivables (note 21)	242,615	–	242,615
Financial assets included in prepayments, deposits and other receivables (note 22)	99,313	–	99,313
Cash and cash equivalents (note 23)	755,345	–	755,345
	1,097,273	150	1,097,423

2013

Financial liabilities

	Group Financial liabilities at amortised cost HK\$'000
Trade and bills payables (note 24)	69,617
Financial liabilities included in other payables and accruals	24,653
Interest-bearing bank and other borrowings (note 27)	706,818
	801,088

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37. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

2012

Financial assets

	Group			Total HK\$'000
	Financial assets at fair value through profit or loss HK\$'000	Loans and receivables HK\$'000	Available-for- sale financial asset HK\$'000	
Available-for-sale investment (note 19)		–	150	150
Trade receivables (note 21)	–	195,534	–	195,534
Financial assets included in prepayments, deposits and other receivables (note 22)	–	11,960	–	11,960
Derivative financial instruments (note 26)	615	–	–	615
Cash and cash equivalents (note 23)	–	499,856	–	499,856
	615	707,350	150	708,115

2012

Financial liabilities

	Group Financial liabilities at amortised cost HK\$'000
Trade and bills payables (note 24)	55,420
Financial liabilities included in other payables and accruals	22,192
Interest-bearing bank and other borrowings (note 27)	451,585
	529,197

NOTES TO FINANCIAL STATEMENTS

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37. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

2013

Financial assets

	Company Loans and receivables HK\$'000
Amounts due from subsidiaries	808,434
Financial assets included in prepayments deposits and other receivables (note 22)	31
Cash and cash equivalents (note 23)	6,960
	815,425

Financial liabilities

	Company Financial liabilities at amortised cost HK\$'000
Financial liabilities included in other payables and accruals (note 25)	51

NOTES TO FINANCIAL STATEMENTS

31 December 2013

37. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

2012

Financial assets

	Company Loans and receivables HK\$'000
Amounts due from subsidiaries	784,845
Cash and cash equivalents (note 23)	6,474
	791,319

Financial liabilities

	Company Financial liabilities at amortised cost HK\$'000
Financial liabilities included in other payables and accruals (note 25)	44

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amount and fair value of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
Financial assets				
Derivative financial instruments (note 26)	–	615	–	615

Management has assessed that the fair values of cash and cash equivalents, trade receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, amounts due from subsidiaries approximate to their carrying amounts largely due to the short term maturities of these instruments.

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38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

The fair values of the financial assets are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of finance lease payables and interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for finance lease payables and interest-bearing bank and other borrowings as at 31 December 2013 was assessed to be insignificant.

At 31 December 2013, an unlisted equity investment with a carrying amount of HK\$150,000 (2012: HK\$150,000) was stated at cost because the variability in the range of the reasonable fair value estimates of the unlisted equity investment is significant and hence the directors are of the opinion that its fair value cannot be measured reliably.

In 2011, the Group entered into forward currency contracts with three creditworthy banks in Hong Kong. Forward currency contracts were measured using valuation technique similar to forward pricing model, using present value calculations. The model incorporated various market observable inputs including the credit quality of counterparties, and foreign exchange spot and forward rates. The carrying amounts of forward currency contracts were the same as their fair values. The forward currency contracts were expired in December 2013.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value as at 31 December 2012:

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Derivative financial instruments:				
Forward currency contracts	–	615	–	615

The Company had no financial instruments measured at fair value as at 31 December 2013 (2012: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2013

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans and other interest-bearing loans, finance leases, and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade and bills payables, which arise directly from its operations.

The Group also enters into derivative transactions, including principally an interest rate swap and forward currency contracts. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements. Management manages and monitors these exposures to ensure that appropriate measures are implemented in a timely and effective manner.

Foreign currency risk

The Group has transactional currency exposures. These exposures arise from sales or purchases by certain subsidiaries in currencies other than the subsidiaries' functional currencies. Approximately 74% (2012: 71%) of the Group's sales were denominated in currencies other than the functional currencies of the subsidiaries making the sale, whilst approximately 20% (2012: 32%) of costs were denominated in currencies other than the subsidiaries' functional currencies. In order to mitigate the foreign currency risk, foreign currency forward contracts are entered into in respect of highly probable foreign currency forecast sales in accordance with the Group's risk management policies.

Certain trade receivables and borrowings of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposures and will consider hedging significant foreign currency exposures should the need arise.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk (Continued)

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the exchange rates of currencies other than the functional currencies of the relevant operating units, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities). There is no material impact on other components of the Group's equity.

	Increase/ (decrease) in exchange rates %	Increase/ (decrease) in profit before tax HK\$'000
2013		
If HK\$ weakens against US\$	5%	17,958
If HK\$ weakens against Euro	5%	531
If HK\$ weakens against Japanese Yen	5%	(199)
If HK\$ strengthens against US\$	(5%)	(17,958)
If HK\$ strengthens against Euro	(5%)	(531)
If HK\$ strengthens against Japanese Yen	(5%)	199
2012		
If HK\$ weakens against US\$	5%	12,790
If HK\$ weakens against Euro	5%	454
If HK\$ weakens against Japanese Yen	5%	(420)
If HK\$ strengthens against US\$	(5%)	(12,790)
If HK\$ strengthens against Euro	(5%)	(454)
If HK\$ strengthens against Japanese Yen	(5%)	420

NOTES TO FINANCIAL STATEMENTS

31 December 2013

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk

The Group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its assets and liabilities and cash flows. The matching of assets and liabilities is utilised to hedge interest rate risk.

In addition, the Group is exposed to interest rate risk through the impact of rate changes on interest-bearing bank borrowings and obligations under finance leases. The interest rates and terms of repayment of bank borrowings and obligations under the finance leases of the Group are disclosed in notes 27 and 28 to the financial statements, respectively.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. To manage this mix in a cost-effective manner, the Group entered into an interest rate swap in 2011, in which the Group agreed to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. This swap was designated to hedge underlying debt obligations. The interest rate swap agreement was expired in April 2012.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax.

	Increase/ (decrease) in basis points	Increase/ (decrease) effect on profit before tax HK\$'000
2013		
HK\$	25	(1,433)
US\$	25	(6)
HK\$	(25)	1,433
US\$	(25)	6
2012		
HK\$	25	(302)
US\$	25	(277)
HK\$	(25)	302
US\$	(25)	277

NOTES TO FINANCIAL STATEMENTS

31 December 2013

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currencies of the relevant operating units, the Group does not offer credit terms without the specific approval of management.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, other receivables and certain derivative instruments, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

The Group consistently maintains a prudent financial policy and ensures that it maintains sufficient cash to meet its liquidity requirements.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group

	2013					Total HK\$'000
	On demand HK\$'000	Less than 3 months HK\$'000	3 to 12 months HK\$'000	1 to 5 years HK\$'000	Over 5 years HK\$'000	
Finance lease payables	–	3,478	10,435	3,483	–	17,396
Interest-bearing bank and other borrowings (excluding finance lease payables)	269,374	111,844	54,216	289,290	–	724,724
Trade and bills payables (note 24)	14,576	55,041	–	–	–	69,617
Other payables and accruals	972	22,309	–	784	588	24,653
	284,922	192,672	64,651	293,557	588	836,390

	2012					Total HK\$'000
	On demand HK\$'000	Less than 3 months HK\$'000	3 to 12 months HK\$'000	1 to 5 years HK\$'000	Over 5 years HK\$'000	
Finance lease payables	–	5,770	10,438	17,396	–	33,604
Interest-bearing bank and other borrowings (excluding finance lease payables)	237,222	192,143	–	–	–	429,365
Trade and bills payables (note 24)	–	52,719	2,701	–	–	55,420
Other payables and accruals	–	20,729	234	272	957	22,192
	237,222	271,361	13,373	17,668	957	540,581

NOTES TO FINANCIAL STATEMENTS

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39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

The maturity profile of the Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Company

	2013					Total HK\$'000
	On demand HK\$'000	Less than 3 months HK\$'000	3 to 12 months HK\$'000	1 to 5 years HK\$'000	Over 5 years HK\$'000	
Other payables and accruals	51	–	–	–	–	51
Guarantees given to banks in connection with facilities granted to subsidiaries	718,654	–	–	–	–	718,654
	718,705	–	–	–	–	718,705

	2012					Total HK\$'000
	On demand HK\$'000	Less than 3 months HK\$'000	3 to 12 months HK\$'000	1 to 5 years HK\$'000	Over 5 years HK\$'000	
Other payables and accruals	44	–	–	–	–	44
Guarantees given to banks in connection with facilities granted to subsidiaries	451,585	–	–	–	–	451,585
	451,629	–	–	–	–	451,629

NOTES TO FINANCIAL STATEMENTS

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39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2013 and 31 December 2012.

The Group monitors capital using a net cash to equity ratio, which is net cash divided by the capital. Net cash includes cash and cash equivalents less interest-bearing bank and other borrowings. Capital represents the total equity attributable to owners of the Company. The net cash to equity ratios as at the end of the reporting periods were as follows:

	Group	
	2013 HK\$'000	2012 HK\$'000
Cash and cash equivalents (note 23)	755,345	499,856
Less: Interest-bearing bank and other borrowings (note 27)	(706,818)	(451,585)
Net cash	48,527	48,271
Equity attributable to owners of the Company	1,440,108	1,406,972
Net cash to equity ratio	3%	3%

40. COMPARATIVE AMOUNTS

Certain comparative balances have been reclassified to conform with the current year's presentation.

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 24 March 2014.



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